

CITY OF POTTERVILLE, MICHIGAN  
EATON COUNTY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
AND  
INDEPENDENT AUDITOR'S REPORT



Layton & Richardson, P.C.  
*Certified Public Accountants*

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF POTTERVILLE	County EATON
Fiscal Year End JUNE 30, 2006	Opinion Date OCTOBER 19, 2006	Date Audit Report Submitted to State MAY 18, 2007	

We affirm that:

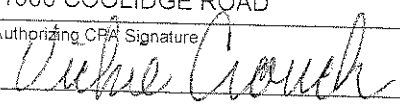
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.		Telephone Number (517) 332-1900		
Street Address 1000 COOLIDGE ROAD		City EAST LANSING	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name VICKIE CROUCH		License Number 1101013436

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# Layton & Richardson, P.C.

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Potterville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Potterville, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Potterville, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statement of the Tax Increment Finance Authority which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Potterville, Michigan at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006 on our consideration of the City of Potterville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

1000 Coolidge Road  
East Lansing, MI 48823

(517) 332-1900  
(517) 332-2082 fax  
Info@LNRCPA.com

Merrick A. Richardson, CPA  
Principal  
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM  
Principal  
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA  
Principal  
Steve@LNRCPA.COM

David Layton, CPA  
DaveLayton@LNRCPA.com

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and pages 66 through 76 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Potterville, Michigan's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Dayton & Richardson, P.C.*  
Certified Public Accountants

East Lansing, Michigan  
October 19, 2006

City of Potterville, Michigan  
Management's Discussion and Analysis  
For Year Ended June 30, 2006

The management of the City of Potterville, Michigan (the City), offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

**Government-Wide**

- The assets of the City exceeded its liabilities at the close of this fiscal year by \$6,047,801 (shown as *Net Assets*), representing a decrease of \$63,916 over the previous fiscal year. Governmental Funds had a decrease of \$37,726 for the year, while Business-Type activities had a decrease of \$26,190 of the net decrease of \$63,916.

**Fund Level Financial Highlights**

- As of June 30, 2006, the governmental funds of the City of Potterville reported combined ending fund balances of \$391,164, of which \$194,127 is unreserved.
- The unreserved fund balance of the City's General Fund decreased this year to \$31,141, or 4.20% of total general fund expenditures.

**Long-Term Debt**

- The City of Potterville's total net debt decreased by \$259,090 during the fiscal year. The City incurred new debt of \$24,000 to pay for a new police car.

**Overview of the Financial Statements**

The City of Potterville's financial statements consist of three components:

1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. The Statement of Net Assets and the Statement of Activities report information about the City as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the City is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* gives the information on the revenues and expense causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

### **Focus on Funds**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The City's major Governmental Funds include the General Fund, Major Street Fund and Local Street Fund. The major Proprietary Funds include the Water and Sewer Funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Pottersville uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue, and debt service funds.



***Proprietary Funds*** Proprietary funds account for services for which the City charges its customers for services they are provided. These charges can be to external customers or other agencies within the City for the services they are provided. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle fleet. The City has one internal service fund, the Equipment Pool Fund.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting much like the Proprietary funds.

***Component Units*** The City's financial statements include reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Tax Increment Financing Authority.

***Joint Venture*** The City of Pottersville and Benton Township entered into an inter-local agreement for the purpose of providing fire and emergency services to their respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operations. The Fire Department issues its own financial statements and they are not included in this report.

## **Notes to the Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the Government-wide and the Fund Financial Statements.

## **Other information**

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

## Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$6,047,801 as of June 30, 2006, meaning that the City's assets were greater than its liabilities by this amount.

City of Pottersville						
Net Assets as of June 30, 2006 and 2005						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	657,207	652,699	495,818	587,904	1,153,025	1,240,603
Capital Assets	2,676,618	2,844,074	4,107,522	4,235,622	6,784,140	7,079,696
<b>Total Assets</b>	<b>3,333,825</b>	<b>3,496,773</b>	<b>4,603,340</b>	<b>4,823,526</b>	<b>7,937,165</b>	<b>8,320,299</b>
Long-term liabilities	299,900	947,207	(60,406)	942,000	239,494	1,889,207
Other liabilities	745,870	223,785	904,000	95,590	1,649,870	319,375
<b>Total Liabilities</b>	<b>1,045,770</b>	<b>1,170,992</b>	<b>843,594</b>	<b>1,037,590</b>	<b>1,889,364</b>	<b>2,208,582</b>
<b>Net Assets</b>						
Invested in capital assets net of related debt	1,820,410	1,761,776	3,165,522	3,261,188	4,985,932	5,022,964
Restricted	5,254	5,054	0	0	5,254	5,054
Unrestricted	462,391	558,951	594,224	524,748	1,056,615	1,083,699
<b>Total Net Assets</b>	<b>2,288,055</b>	<b>2,325,781</b>	<b>3,759,746</b>	<b>3,785,936</b>	<b>6,047,801</b>	<b>6,111,717</b>

The most significant portion of the City's Net Assets are the investments in capital assets (e.g. land, buildings, equipments, infrastructure, and others), less any related debt which is outstanding that the City used to acquire or construct the asset. The City has \$1,056,615 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by City policies regarding their use.

The total net assets of the City decreased \$63,916 in this fiscal year. The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the government-wide Statement of Activities.

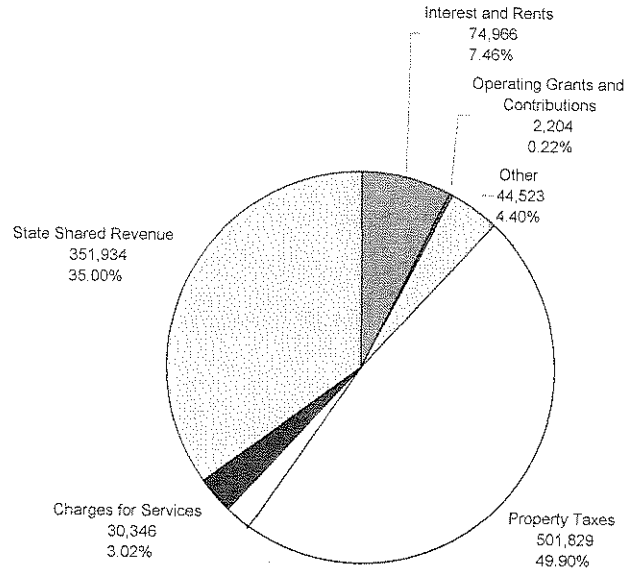
City of Pottersville  
Change in Net Assets for Fiscal Year Ended June 30, 2006

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues						
Charges for Services	30,346	37,038	411,057	371,717	441,403	408,755
Operating Grants and Contributions	2,204	129,398	0	0	2,204	129,398
General Revenues						
Property Taxes and Assessments	501,829	460,438	0	0	501,829	460,438
State Shared Revenue	351,934	361,375	0	0	351,934	361,375
Unrestricted Investment Earnings	74,966	9,787	1,584	716	76,550	10,503
Intergovernmental Revenue	(25,000)	(38,600)	0	0	(25,000)	(38,600)
Other	44,523	102,560	109,532	95,699	154,055	198,259
<b>Total Revenues</b>	<b>980,802</b>	<b>1,061,996</b>	<b>522,173</b>	<b>468,132</b>	<b>1,502,975</b>	<b>1,530,128</b>
<b>Expenses</b>						
Legislative	13,233	9,110	0	0	13,233	9,110
General Government	256,200	252,099	0	0	256,200	252,099
Public Safety	276,569	216,509	0	0	276,569	216,509
Public Works	199,043	100,379	0	0	199,043	100,379
Recreation and Culture	65,927	91,128	0	0	65,927	91,128
Depreciation	171,154	165,596	0	0	171,154	165,596
Interest on Long-Term Debt	36,402	85,826	0	0	36,402	85,826
Water and Sewer	0	0	548,363	589,630	548,363	589,630
<b>Total Expenses</b>	<b>1,018,528</b>	<b>920,647</b>	<b>548,363</b>	<b>589,630</b>	<b>1,566,891</b>	<b>1,510,277</b>
Increase (Decrease) in Net Assets	(37,726)	141,349	(26,190)	(121,498)	(63,916)	19,851
Beginning Net Assets	2,325,781	2,153,579	3,785,936	3,925,275	6,111,717	6,078,854
Prior Period Adjustment	0	30,853	0	(17,841)	0	13,012
<b>Ending Net Assets</b>	<b>2,288,055</b>	<b>2,325,781</b>	<b>3,759,746</b>	<b>3,785,936</b>	<b>6,047,801</b>	<b>6,111,717</b>

### Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the fiscal year ended June 30, 2006:

### Revenues - Governmental Activities Fiscal Year Ended June 30, 2006



The most significant portion of the revenue for all government activities of the City of Pottersville comes from Property Taxes. The City's millage as the charter allows is 11.4221 mills for operations.

State Shared Revenue is collected by the State of Michigan and is distributed to local governments by formula allocation of portions of the State Sales Tax and Motor Fuel Weight Taxes. In 2006, the amount of State Shared Revenue received by the City decreased by \$9,441 from 2005.

Public Safety expenses were the largest expenses for the City, unlike FY2005 when General Government expenses were the largest category of expenditure. In FY2006, the City spent \$276,569 on Public Safety, or 27.2% of the City's expenses. General Government expenses of \$256,200 represented 25.1% of the total expenses within the governmental activities.

### Business-Type Activities

These activities accounted for a decrease of \$26,190 in the City's Net Assets.

The Business-Type activities of the City include the Water and Sewer Fund, which provide water and sewer utilities to City residents as well as commercial customers.

## **Financial Analysis of the Government's Funds**

**Governmental Activities** At the completion of the City's fiscal year June 30, 2006, its governmental funds reported fund balances of \$391,164. Of this amount, \$194,127 or 49.6% is unreserved. Of this amount, \$162,986 of unreserved and undesignated fund balances exists in the City's Special Revenue funds. The remaining \$197,037 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

**General Fund** The General Fund is the main operating fund of the City. The general Fund decreased its balance in this fiscal year by \$100,419, bringing the balance to \$31,141. The General Fund's major functions that ended the year with expenditures above appropriated amounts include: Legislative. Property Tax revenues in the General Fund increased \$41,391 in 2006, an increase of 9%.

**Major Street Fund** The fund balance of the Major Street Fund ended the year at \$127,443. This was an increase of \$19,143 from the previous year.

**Local Street Fund** The fund balance of this fund is at \$35,687, a decrease of \$54,640 during this fiscal year. The decrease was due to the expenditure of funds for various street projects.

**Proprietary Funds** The City's proprietary funds provide virtually the same information as the government-wide statements; however, more detail may be found in the fund financial statements.

**Water Fund** The Water Fund ended this fiscal year with \$336,483 in unrestricted net assets. The total operating revenues of the fund increased from \$208,553 in FY2005 to \$241,939 in 2006. The net assets of the fund increased by \$16,654.

**Sewer Fund** The Sewer Fund ended this fiscal year with \$257,741 in unrestricted net assets. The total operating revenues increased from \$179,863 in FY2005 to \$192,880 in 2006. However, the net assets of the fund decreased by \$42,844.

## **Capital Asset and Debt Administration**

**Capital Assets** The City's investment in capital assets for the governmental and business-type activities as of June 30, 2006 amounted to \$6,784,140 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

City of Potterville  
Capital Assets as of June 30, 2006

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	223,263	260,076	483,339
Infrastructure	3,002,757	5,578,455	8,581,212
Buildings	531,027	0	531,027
Improvements other than Buildings	1,151,225	0	1,151,225
Machinery and Equipment	339,736	731,242	1,070,978
<b>Subtotal</b>	<b>5,248,008</b>	<b>6,569,773</b>	<b>11,817,781</b>
Accumulated Depreciation	2,571,390	2,462,251	5,033,641
<b>Net Capital Assets</b>	<b>2,676,618</b>	<b>4,107,522</b>	<b>6,784,140</b>

Additional information regarding the City's capital assets can be found in the Notes to Financial Statements section.

**Long Term Debt** As of June 30, 2006, The City had total debt outstanding of \$1,798,208. Of this amount, \$1,455,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources. The revenue bonds are from the Sewer Fund (\$287,000) which are backed by revenues from the Sewer system and have been used to finance major capital projects within the Sewer system.

City of Potterville Outstanding Debt  
General Obligation and Revenue Bonds  
as of June 30, 2006

	Governmental Activities	Business-Type Activities	Total Primary Government
General Obligation Bonds	800,000	655,000	1,455,000
Contracts and Notes	56,208	0	56,208
Revenue Bonds	0	287,000	287,000
<b>Total</b>	<b>856,208</b>	<b>942,000</b>	<b>1,798,208</b>

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation based on the City's assessed valuation is significantly in excess of the City's outstanding general obligation debt of \$1,455,000.

The total debt retired by \$283,090 at June 30, 2006, a net reduction of \$259,090. More information on the City's long-term debt is available in the Notes to Financial Statements section of this document.

### **Contacting the City's Finance Department**

This Financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of Potterville, City Clerk, 319 N. Nelson Street, Potterville, MI 48876, or call (517) 645-7641.

The financial reports for the Tax Increment Financing Authority, a component unit of the City, can be obtained by contacting City of Potterville Tax Increment Financing Authority, 319 North Nelson Street, Potterville, MI 48876.

The Financial reports for the Potterville-Benton Township Fire Department, a joint venture of the City, can be obtained by contacting Potterville-Benton Township Fire Department, 4713 Hartel Road, Potterville, MI 48876.

## GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.



**CITY OF POTTERVILLE, MICHIGAN**

**STATEMENT OF NET ASSETS**

JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS				
CURRENT ASSETS				
Cash	\$ 458,877	\$ 385,573	\$ 844,450	\$ 384,025
Investments				76,452
Receivables				
Accounts		48,039	48,039	446
Special assessment	77,880		77,880	
Due from				
Other governmental units	92,658		92,658	
Bond discount, net				
of amortization	22,500		22,500	23,829
Restricted assets				
Cash		56,254	56,254	
Prepaid insurance	5,292	5,952	11,244	
Capital assets (net of accumulated depreciation)	<u>2,676,618</u>	<u>4,107,522</u>	<u>6,784,140</u>	<u>                    </u>
 TOTAL ASSETS	 <u>\$ 3,333,825</u>	 <u>\$ 4,603,340</u>	 <u>\$ 7,937,165</u>	 <u>\$ 484,752</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities				
Accounts payable	\$ 7,323	\$ 7,038	\$ 14,361	\$
Accrued interest payable	10,164	10,257	20,421	3,676
Customer deposits payable		15,258	15,258	
Pension payable	2,495	4,858	7,353	
Accrued payroll	3,333	2,227	5,560	
Due to other funds	154,191	(144,661)	9,530	
Other	1,644		1,644	
Compensated absences	10,412	6,617	17,029	
Bonds and notes payable	110,338	38,000	148,338	60,000
Noncurrent liabilities				
Bonds payable	715,000	904,000	1,619,000	385,000
Equipment contracts payable	30,870		30,870	
TOTAL LIABILITIES	<u>1,045,770</u>	<u>843,594</u>	<u>1,889,364</u>	<u>448,676</u>
NET ASSETS				
Invested in capital assets net of related debt	1,820,410	3,165,522	4,985,932	
Restricted for Park expenditures	5,254		5,254	
Unrestricted	<u>462,391</u>	<u>594,224</u>	<u>1,056,615</u>	<u>36,076</u>
TOTAL NET ASSETS	<u>2,288,055</u>	<u>3,759,746</u>	<u>6,047,801</u>	<u>36,076</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,333,825</u>	<u>\$ 4,603,340</u>	<u>\$ 7,937,165</u>	<u>\$ 484,752</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b>FUNCTIONS/PROGRAMS</b>			
Primary Government			
Governmental Activities			
Legislative	\$ 13,233	\$	
General government	256,200		1,132
Public safety	276,569		
Public works	199,043	2,550	
Recreation and culture	65,927	27,796	1,072
Debt service - interest on long-term debt	36,402		
Unallocated depreciation	171,154		
Total Governmental Activities	<u>1,018,528</u>	<u>30,346</u>	<u>2,204</u>
Business-Type Activities			
Water	272,651	224,121	
Sewer	275,712	186,936	
Total Business-Type Activities	<u>548,363</u>	<u>411,057</u>	
Total Primary Government	<u>\$ 1,566,891</u>	<u>\$ 441,403</u>	<u>\$ 2,204</u>
Component Unit			
Tax increment financing authority	<u>\$ 117,476</u>	<u>\$</u>	<u>\$</u>
General Revenues			
Property taxes			
State shared revenue			
Fines and forfeits			
Interest and rents			
Intergovernmental revenue (expenses)			
Other revenues			
TOTAL GENERAL REVENUES			
CHANGE IN NET ASSETS			
NET ASSETS, JULY 1			
NET ASSETS, JUNE 30			

See accompanying notes to financial statements.

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT		COMPONENT UNIT TAX INCREMENT FINANCING AUTHORITY
	BUSINESS- TYPE ACTIVITIES	TOTAL	
\$ (13,233)	\$	\$ (13,233)	\$
(255,068)		(255,068)	
(276,569)		(276,569)	
(196,493)		(196,493)	
(37,059)		(37,059)	
(36,402)		(36,402)	
(171,154)		(171,154)	
(985,978)		(985,978)	
	(48,530)	(48,530)	
	(88,776)	(88,776)	
	(137,306)	(137,306)	
(985,978)	(137,306)	(1,123,284)	
			(117,476)
501,829		501,829	161,532
351,934		351,934	
234		234	
74,966	1,584	76,550	3,065
(25,000)		(25,000)	
44,289	109,532	153,821	
948,252	111,116	1,059,368	164,597
(37,726)	(26,190)	(63,916)	47,121
2,325,781	3,785,936	6,111,717	(11,045)
\$ 2,288,055	\$ 3,759,746	\$ 6,047,801	\$ 36,076

# CITY OF POTTERVILLE, MICHIGAN

## BALANCE SHEET

### GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL FUND	MAJOR STREETS FUND
ASSETS		
Cash	\$ 149,088	\$ 120,457
Special assessments		
Due from other governments	71,412	15,438
Due from other funds	16,967	
Bond discount		
Prepaid insurance	4,347	473
TOTAL ASSETS	<u>\$ 241,814</u>	<u>\$ 136,368</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 6,517	\$ 70
Pension payable	867	366
Accrued payroll	2,752	225
Due to other funds	198,893	8,264
Other	1,644	
Deferred revenue		
TOTAL LIABILITIES	<u>210,673</u>	<u>8,925</u>
FUND BALANCE		
Reserved for debt service		
Reserved for park		
Unreserved, undesignated	31,141	127,443
TOTAL FUND BALANCE	<u>31,141</u>	<u>127,443</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 241,814</u>	<u>\$ 136,368</u>

See accompanying notes to financial statements.

LOCAL STREETS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 36,691	\$ 136,354	\$ 442,590
5,808	77,880	77,880
	41,706	92,658
	22,500	58,673
472		22,500
<u>\$ 42,971</u>	<u>\$ 278,440</u>	<u>\$ 699,593</u>
\$ 70	\$	\$ 6,657
358	527	2,118
225		3,202
6,631	3,140	216,928
	77,880	1,644
<u>7,284</u>	<u>81,547</u>	<u>77,880</u>
		<u>308,429</u>
	191,783	191,783
	5,254	5,254
<u>35,687</u>	<u>(144)</u>	<u>194,127</u>
<u>35,687</u>	<u>196,893</u>	<u>391,164</u>
<u>\$ 42,971</u>	<u>\$ 278,440</u>	<u>\$ 699,593</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

Total fund balances - governmental funds	\$ 391,164
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,908,271 and the accumulated depreciation is \$2,339,037	2,569,234
Long term receivables are not available to pay current period expenditures and therefore are deferred in governmental funds	
Deferred revenue	77,880
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities	68,452
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Long-term liabilities at year-end consist of:	
Bonds payable	(800,000)
Accrued interest	(9,150)
Compensated absences	(9,525)
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 2,288,055</b>

See accompanying notes to financial statements.

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	GENERAL FUND	MAJOR STREETS FUND
REVENUES		
Taxes	\$ 501,829	\$
Licenses and permits	2,550	
State grants	223,136	93,622
Charges for services		
Fines and forfeits	234	
Interest and rents	65,965	3,985
Other revenue	50,373	626
TOTAL REVENUES	<u>844,087</u>	<u>98,233</u>
EXPENDITURES		
Legislative	13,233	
General government	263,868	
Public safety	278,044	
Public works	39,117	49,110
Recreation and culture		
Debt service		
Principal	140,476	5,054
Interest and fiscal charges	5,876	538
TOTAL EXPENDITURES	<u>740,614</u>	<u>54,702</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>103,473</u>	<u>43,531</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in	38,608	
Operating transfers out	(242,500)	(24,388)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(203,892)</u>	<u>(24,388)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(100,419)	19,143
FUND BALANCE, JULY 1	<u>131,560</u>	<u>108,300</u>
FUND BALANCE , JUNE 30	<u>\$ 31,141</u>	<u>\$ 127,443</u>

See accompanying notes to financial statements.



LOCAL STREETS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$	\$	\$
35,176		501,829
		2,550
	27,796	351,934
2,266		27,796
328	2,750	234
<u>37,770</u>	<u>30,503</u>	<u>74,966</u>
	61,049	81,830
		<u>1,041,139</u>
		13,233
		263,868
116,798	1,144	278,044
	67,400	206,169
		67,400
	85,000	
	<u>46,997</u>	230,530
<u>116,798</u>	<u>200,541</u>	<u>53,411</u>
		<u>1,112,655</u>
(79,028)	(139,492)	(71,516)
24,388	217,500	280,496
	<u>(38,608)</u>	<u>(305,496)</u>
<u>24,388</u>	<u>178,892</u>	<u>(25,000)</u>
(54,640)	39,400	(96,516)
<u>90,327</u>	<u>157,493</u>	<u>487,680</u>
\$ <u><u>35,687</u></u>	\$ <u><u>196,893</u></u>	\$ <u><u>391,164</u></u>

CITY OF POTTERVILLE, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

Net changes in fund balances - total governmental funds	\$ (96,516)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Less: current year depreciation	(171,154)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(35,337)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	17,009
Principal payments	230,530
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	6,427
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income (expense) of the internal service funds is reported with governmental activities.	11,315
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(37,726)</u>

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN  
BALANCE SHEET  
NON MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>SPECIAL REVENUE FUND</u>	
	PARK FUND	STORM DRAIN MAINTENANCE FUND
ASSETS		
Cash	\$ 5,706	\$ 1,134
Special assessments		
Due from other funds	40,000	
Bond discount	22,500	
TOTAL ASSETS	<u>\$ 68,206</u>	<u>\$ 1,134</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Pension payable	\$ 527	\$
Due to other funds	156	1,278
Deferred revenue		
TOTAL LIABILITIES	<u>683</u>	<u>1,278</u>
FUND BALANCE		
Reserved for debt service	67,523	
Reserved for park		
Reserved for storm drain maintenance		(144)
TOTAL FUND BALANCE	<u>67,523</u>	<u>(144)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 68,206</u>	<u>\$ 1,134</u>

See accompanying notes to financial statements.

DEBT SERVICE FUND		PERMANENT FUND	
STORM DRAIN SPECIAL ASSESSMENT BOND FUND	SUNSET HILLS SPECIAL ASSESSMENT BOND FUND	IMAGINATION STATION PARK FUND	TOTAL NON MAJOR GOVERNMENTAL FUNDS
\$ 28,856	\$ 124,260 49,024 1,706	\$ 5,254	\$ 136,354 77,880 41,706 22,500
<u>\$ 28,856</u>	<u>\$ 174,990</u>	<u>\$ 5,254</u>	<u>\$ 278,440</u>
\$ 1,706 28,856	\$ 49,024	\$	\$ 527 3,140 77,880
<u>30,562</u>	<u>49,024</u>		<u>81,547</u>
(1,706)	125,966	5,254	191,783 5,254 (144)
<u>(1,706)</u>	<u>125,966</u>	<u>5,254</u>	<u>196,893</u>
<u>\$ 28,856</u>	<u>\$ 174,990</u>	<u>\$ 5,254</u>	<u>\$ 278,440</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NON MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>SPECIAL REVENUE FUND</u>	
	PARK FUND	STORM DRAIN MAINTENANCE FUND
REVENUES		
Charges for services	\$ 27,796	\$
Interest and rents	2,550	
Other revenue	<u>25</u>	
TOTAL REVENUES	<u>30,371</u>	
EXPENDITURES		
Recreation and culture	67,400	
Public works		1,144
Debt service		
Principal	55,000	
Interest and fiscal charges	<u>30,891</u>	
TOTAL EXPENDITURES	<u>153,291</u>	<u>1,144</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(122,920)</u>	<u>(1,144)</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in	166,500	1,000
Operating transfers out		
TOTAL OTHER FINANCING SOURCES (USES)	<u>166,500</u>	<u>1,000</u>
NET CHANGE IN FUND BALANCE	43,580	(144)
FUND BALANCE, JULY 1	<u>23,943</u>	
FUND BALANCE , JUNE 30	<u>\$ 67,523</u>	<u>\$ (144)</u>

See accompanying notes to financial statements.

DEBT SERVICE FUND		PERMANENT FUND	
STORM DRAIN SPECIAL ASSESSMENT BOND FUND	SUNSET HILLS SPECIAL ASSESSMENT BOND FUND	IMAGINATION STATION PARK FUND	TOTAL NON MAJOR GOVERNMENTAL FUNDS
\$	\$	\$	\$
9,463	21,015	200	27,796
<u>9,463</u>	<u>21,015</u>	<u>200</u>	<u>2,750</u>
			<u>30,503</u>
			61,049
			67,400
			1,144
	30,000		85,000
5,201	10,905		46,997
<u>5,201</u>	<u>40,905</u>	<u></u>	<u>200,541</u>
4,262	(19,890)	200	(139,492)
30,000	20,000		217,500
(38,608)			(38,608)
<u>(8,608)</u>	<u>20,000</u>	<u></u>	<u>178,892</u>
(4,346)	110	200	39,400
2,640	125,856	5,054	157,493
<u>(1,706)</u>	<u>125,966</u>	<u>5,254</u>	<u>196,893</u>

**CITY OF POTTERVILLE, MICHIGAN**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	MAJOR FUNDS			ACTIVITIES -
	WATER	SEWAGE		INTERNAL
	SUPPLY	DISPOSAL	TOTALS	SERVICE
				FUND
ASSETS				
CURRENT ASSETS				
Cash	\$ 184,147	\$ 201,426	\$ 385,573	\$ 16,287
Receivables				
Accounts	23,914	24,125	48,039	
Due from other funds	146,351		146,351	4,175
Prepaid expenses	2,976	2,976	5,952	
TOTAL CURRENT ASSETS	357,388	228,527	585,915	20,462
RESTRICTED ASSETS				
Cash	6,118	50,136	56,254	
PROPERTY, PLANT				
AND EQUIPMENT				
Land	23,713	236,363	260,076	
Treatment system		83,377	83,377	
Collection lines		3,825,538	3,825,538	
Mains and connections	846,958		846,958	
Vehicles				191,042
Wells and controls	822,582		822,582	
Machinery and equipment	718,815	12,427	731,242	148,694
	2,412,068	4,157,705	6,569,773	339,736
Less: accumulated depreciation	(532,856)	(1,929,395)	(2,462,251)	(232,353)
NET PROPERTY, PLANT AND EQUIPMENT	1,879,212	2,228,310	4,107,522	107,383
TOTAL ASSETS				
	\$ 2,242,718	\$ 2,506,973	\$ 4,749,691	\$ 127,845

See accompanying notes to financial statements.

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	MAJOR FUNDS			ACTIVITIES -
	WATER	SEWAGE		INTERNAL
	SUPPLY	DISPOSAL	TOTALS	SERVICE
				FUND
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 3,736	\$ 3,302	\$ 7,038	\$ 666
Accrued payroll	1,069	1,158	2,227	131
Accrued interest payable	7,898	2,359	10,257	1,014
Customer deposits payable	7,629	7,629	15,258	
Pension payable	2,415	2,443	4,858	377
Due to other funds	922	768	1,690	111
Accrued compensated absences	3,354	3,263	6,617	887
TOTAL CURRENT LIABILITIES	<u>27,023</u>	<u>20,922</u>	<u>47,945</u>	<u>3,186</u>
CURRENT LIABILITIES FROM RESTRICTED ASSETS				
Revenue bonds	20,000	18,000	38,000	
Equipment contracts				25,337
TOTAL CURRENT LIABILITIES FROM RESTRICTED ASSETS	<u>20,000</u>	<u>18,000</u>	<u>38,000</u>	<u>25,337</u>
LONG-TERM LIABILITIES				
Revenue bonds	635,000	269,000	904,000	
Equipment contracts				30,870
TOTAL LONG-TERM LIABILITIES	<u>635,000</u>	<u>269,000</u>	<u>904,000</u>	<u>30,870</u>
TOTAL LIABILITIES	<u>682,023</u>	<u>307,922</u>	<u>989,945</u>	<u>59,393</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,224,212	1,941,310	3,165,522	21,176
Unrestricted	336,483	257,741	594,224	47,276
TOTAL NET ASSETS	<u>1,560,695</u>	<u>2,199,051</u>	<u>3,759,746</u>	<u>68,452</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,242,718</u>	<u>\$ 2,506,973</u>	<u>\$ 4,749,691</u>	<u>\$ 127,845</u>



**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL
	<u>MAJOR FUNDS</u>			ACTIVITIES -
	<u>WATER</u>	<u>SEWAGE</u>		INTERNAL
	<u>SUPPLY</u>	<u>DISPOSAL</u>	<u>TOTALS</u>	<u>SERVICE</u>
				<u>FUND</u>
OPERATING REVENUES				
Charges for services	\$ 224,121	\$ 186,936	\$ 411,057	\$ 50,610
Other revenue	17,818	5,944	23,762	5,865
TOTAL OPERATING REVENUES	<u>241,939</u>	<u>192,880</u>	<u>434,819</u>	<u>56,475</u>
OPERATING EXPENSES				
Personal services	84,219	92,307	176,526	10,610
Employee benefits	26,043	28,743	54,786	3,816
Professional services	12,478	7,362	19,840	
Office supplies and expense	16,031	12,516	28,547	2,011
Telephone and telegraph	(40)	(40)	(80)	
Repairs and maintenance	14,606	7,823	22,429	18,457
Insurance	2,650	5,200	7,850	7,210
Utilities	18,640	11,911	30,551	2,247
Depreciation	47,247	80,853	128,100	20,302
Rentals	16,769	13,928	30,697	
Other	1,508	175	1,683	3,192
TOTAL OPERATING EXPENSES	<u>240,151</u>	<u>260,778</u>	<u>500,929</u>	<u>67,845</u>
OPERATING INCOME (LOSS)	<u>1,788</u>	<u>(67,898)</u>	<u>(66,110)</u>	<u>(11,370)</u>
NONOPERATING REVENUES				
(EXPENSES)				
Interest income		1,584	1,584	
Hook-up fees	47,366	38,404	85,770	
Transfers in				25,000
Interest and fiscal charges	(32,500)	(14,934)	(47,434)	(2,315)
TOTAL NONOPERATING				
REVENUES (EXPENSES)	<u>14,866</u>	<u>25,054</u>	<u>39,920</u>	<u>22,685</u>
NET INCOME (LOSS)	16,654	(42,844)	(26,190)	11,315
NET ASSETS, JULY 1	<u>1,544,041</u>	<u>2,241,895</u>	<u>3,785,936</u>	<u>57,137</u>
NET ASSETS, JUNE 30	<u>\$ 1,560,695</u>	<u>\$ 2,199,051</u>	<u>\$ 3,759,746</u>	<u>\$ 68,452</u>

See accompanying notes to financial statements.

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	MAJOR FUNDS			ACTIVITIES -
	WATER SUPPLY	SEWAGE DISPOSAL	TOTALS	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 93,578	\$ 186,602	\$ 280,180	\$ 52,300
Payments to suppliers	(148,081)	(97,054)	(245,135)	(41,409)
Payments to employees	(56,225)	(92,093)	(148,318)	(9,930)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(110,728)	(2,545)	(113,273)	961
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating transfers in				25,000
Restricted cash	1,142	(344)	798	
Customer deposits payable	369	369	738	
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,511	25	1,536	25,000
CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES				
Proceeds from hook up fees	47,366	38,404	85,770	
Acquisition of capital assets				(24,000)
Proceeds from issuance of debt				24,000
Principal paid on bonds	(15,000)	(18,000)	(33,000)	(19,482)
Interest paid on bonds	(32,895)	(15,250)	(48,145)	(1,301)
NET CASH PROVIDED BY (USED IN) CAPITAL AND AND RELATED FINANCING ACTIVITIES	(529)	5,154	4,625	(20,783)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		1,584	1,584	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(109,746)	4,218	(105,528)	5,178
CASH AND CASH EQUIVALENTS, JULY 1	293,893	197,208	491,101	11,109
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 184,147	\$ 201,426	\$ 385,573	\$ 16,287

See accompanying notes to financial statements.

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS - Concluded**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	MAJOR FUNDS			ACTIVITIES -
	WATER	SEWAGE		INTERNAL
	SUPPLY	DISPOSAL	TOTALS	SERVICE
				FUND
RECONCILIATION OF OPERATING				
INCOME TO NET CASH				
PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,788	\$ (67,898)	\$ (66,110)	\$ (11,370)
ADJUSTMENTS TO RECONCILE				
OPERATING INCOME (LOSS) TO NET				
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Depreciation	47,247	80,853	128,100	20,302
(Increase) decrease in current assets				
Accounts receivable	(2,010)	(6,278)	(8,288)	
Due from other funds	(146,351)		(146,351)	(4,175)
Prepaid expenses	(2,976)	(2,976)	(5,952)	
Increase (decrease) in current liabilities				
Accounts payable	1,636	2,024	3,660	(3,559)
Accrued payroll	(4,688)	(3,636)	(8,324)	(562)
Accrued compensated absences	(5,374)	(4,634)	(10,008)	325
TOTAL ADJUSTMENTS	(112,516)	65,353	(47,163)	12,331
NET CASH PROVIDED BY (USED				
IN) OPERATING ACTIVITIES	\$ (110,728)	\$ (2,545)	\$ (113,273)	\$ 961

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	EXTERNAL AGENCY FUNDS	INTERNAL AGENCY FUNDS	TOTAL AGENCY FUNDS
ASSETS			
Cash	\$ 100,536	\$ 21,117	\$ 121,653
Due from other funds		10,558	10,558
NET ASSETS	<u>\$ 100,536</u>	<u>\$ 31,675</u>	<u>\$ 132,211</u>
LIABILITIES			
Due to other governmental units	\$ 100,536	\$	\$ 100,536
Payroll withholdings payable		183	183
Pension payable		31,492	31,492
TOTAL LIABILITIES	<u>\$ 100,536</u>	<u>\$ 31,675</u>	<u>\$ 132,211</u>

See accompanying notes to financial statements.

## **CITY OF POTTERVILLE, MICHIGAN**

### **NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2006

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Potterville, Michigan, was incorporated December 12, 1962, and adopted its current charter on November 11, 1988. Located in Eaton County, the City operates under a Council-Manager form of government and provides the following services: public safety (police protection), highways and streets, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City's financial statements include the accountings of all City operations.

The financial statements of the City of Potterville, Michigan (government) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### **A. Reporting Entity**

As required by U.S. generally accepted accounting principles, these financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The discretely presented component unit has a June 30 year end.

#### **Discretely Presented Component Unit**

##### **Tax Increment Financing Authority**

On July 11, 1984, the City of Potterville established a Tax Increment Financing Authority (TIFA) for the purpose of promoting growth and development. The TIFA is legally separate from the primary government. The City Council appoints the 3-member TIFA board and approves their budget.

Complete financial statements of the TIFA can be obtained from their administrative offices or from the City Clerk's office at City Hall.

##### **Administrative Offices**

City of Potterville Tax Increment Financing Authority  
319 North Nelson  
Potterville, MI 48876

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

A. Reporting Entity – Concluded

**Discretely Presented Component Unit** – Concluded

Based on the foregoing criteria, the financial statements of the following organizations are excluded from the accompanying financial statements:

**Joint Ventures**

Potterville-Benton Township Fire Department – The City of Potterville and the Township of Benton entered into an interlocal agreement for the purpose of providing fire and emergency services to respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operation. The fire board consists of six members, three appointed by the City and three appointed by the Township. The City and Township both approve the annual Fire Department budget. During the fiscal year ended June 30, 2006, the City of Potterville contributed \$92,552 to the Fire Department.

Complete financial statements of the joint venture can be obtained by writing to:

Potterville-Benton Township Fire Department  
4713 Hartel Road  
Potterville, MI 48876

**Related Organizations**

Benton Township-Potterville District Library – The district library is a legally separate organization established to provide library services to residents of Benton Township and the City of Potterville. An elected 7-member board governs the district library. The district library is supported, in part, by a millage passed November 4, 1994. The tax of 1/5 mill applies to all taxable property in the library district, which consists of Benton Township and the City of Potterville. The district library board is empowered to propose and levy upon approval of the electors a tax for the support of the district library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988 (MCL 397.287 et. Seq.). The district library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The City and Township do not hold title to any of the district library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the district library.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**B. Government-Wide Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.



**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The City of Potterville reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund

The Major Street Fund is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state truck lines.

Local Street Fund

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

The City of Potterville reports the following major proprietary funds:

Water Fund

The Water Fund records financial activity of the water system which provides water to customers.

Sewer Fund

The Sewer Fund records financial activity of the sewage disposal services to its customers.

Additionally, the City of Potterville reports the following fund types:

Special Revenue Funds

The Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory provisions to pay for certain activities with some special form of continuing revenues.

Debt Service Funds

The Debt Service Funds account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Internal Service Funds

The Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Concluded

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved.

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS -- Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** -- Continued

D. Assets, Liabilities and Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

Investments

The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, banker acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes. Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes and also taxes for the County and school districts. Collections of the County and school taxes and remittance of them to the taxing units are accounted for in the Current Tax Collection Fund. County and school taxes are billed and due December 1, and become delinquent after February 14. City property tax revenues are recognized when levied thus none of the 2004 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after August 10.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Assets, Liabilities and Equity - Continued

Restricted Assets

The restricted assets of the Enterprise Funds consist of bond and interest redemption, bond reserve and system improvement deposits. These have been set up in keeping with the bond indenture agreements.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories held by the General, Water and Internal Service Funds are not considered material and are not included in these financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Assets, Liabilities and Equity - Continued

Capital Assets - Concluded

Property, plant and equipment are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

ASSETS	USEFUL LIFE
Buildings	20-50 years
Public domain infrastructure	20-30 years
Mains and connections	20-100 years
Equipment	10-20 years
Intangibles	3-5 years

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for nonvesting, unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortizations of premiums, discounts, and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 1:      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded**

D.    Assets, Liabilities and Equity - Concluded

Long-Term Obligations – Concluded

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2:      **BUDGETS AND BUDGETARY ACCOUNTING**

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

**NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING – Concluded**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed appropriation at the total fund level.
5. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year. The City amended its budget once during the current fiscal year.
6. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

Funds with expenditures in excess of appropriations were as follows:

	AMENDED BUDGET	ACTUAL	VARIANCE
General Fund			
Legislative	\$ 11,705	\$ 13,233	\$( 1,528 )
Debt service		146,352	( 146,352 )
Operating transfers	202,500	203,892	( 1,392 )
Special Revenue Funds			
Park fund			
Debt service	83,392	85,891	( 2,499 )
Storm drain special assessment fund			
Operating transfers out		38,608	( 38,608 )



**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

**NOTE 3: CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned.

The City's deposits are owned by several of the City's funds. At year end, the carrying amount of the primary government's deposits and cash on hand was \$1,022,357 and the bank balance was \$1,106,448. Of the bank balance, \$144,145 was covered by federal depository insurance, and \$962,303 was uninsured and uncollateralized. The government does not have a deposit policy for credit risk.

A reconciliation of cash and investments follows:

	PRIMARY GOVERNMENT	COMPONENT UNITS
Cash on hand	\$ 300	\$
Carrying amount of deposits	965,803	384,025
Investments – Certificates of Deposit		76,452
Restricted cash	<u>56,254</u>	<u></u>
<b>TOTAL</b>	<b><u>\$ 1,022,357</u></b>	<b><u>\$ 460,477</u></b>
Government-Wide		
Statement of Net Assets		
Cash	\$ 844,450	\$ 384,025
Restricted cash	56,254	
Investments – Certificates of Deposit		76,452
Statement of Fiduciary Net Assets		
Cash	<u>121,653</u>	<u></u>
<b>TOTAL</b>	<b><u>\$ 1,022,357</u></b>	<b><u>\$ 460,477</u></b>

As of June 30, 2006, \$360,537 of the component unit's bank balances and investments in certificates of deposit were uninsured and exposed to custodial credit risk. The component unit does not have a deposit policy for custodial credit risk.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 4: **RECEIVABLES**

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	STORM DRAIN SPECIAL ASSESSMENT	SUNSET HILLS SPECIAL ASSESSMENT	WATER FUND	SEWAGE DISPOSAL FUND	TOTAL
Receivables					
Accounts	\$	\$	\$ 23,914	\$ 24,125	\$ 48,039
Special					
Assessments					
Deferred	<u>28,856</u>	<u>49,024</u>	<u>      </u>	<u>      </u>	<u>77,880</u>
TOTAL	\$ <u>28,856</u>	\$ <u>49,024</u>	\$ <u>23,914</u>	\$ <u>24,125</u>	\$ <u>125,919</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	DEFERRED REVENUE	
	UNAVAILABLE	UNEARNED
General Fund	\$	\$
Special Assessments Receivable		
(Debt Service Funds)	<u>77,880</u>	<u>      </u>
	\$ <u>77,880</u>	\$ <u>      </u>

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 5: **CAPITAL ASSETS**

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Land	\$ <u>223,263</u>	\$ _____	\$ _____	\$ <u>223,263</u>
Capital assets, being depreciated				
Buildings	531,027			531,027
Land improvements	1,151,225			1,151,225
Paved roads	2,661,494			2,661,494
Unpaved roads	67,770			67,770
Bike path	<u>273,493</u>	_____	_____	<u>273,493</u>
Total Capital assets being depreciated	<u>4,685,009</u>	_____	_____	<u>4,685,009</u>
Less: accumulated depreciation				
Buildings	68,860	10,621		79,481
Land improvements	876,934	57,561		934,495
Paved roads	1,188,542	88,717		1,277,259
Unpaved roads	27,108	2,259		29,367
Bike path	<u>6,439</u>	<u>11,996</u>	_____	<u>18,435</u>
Total accumulated depreciation	<u>2,167,883</u>	<u>171,154</u>	_____	<u>2,339,037</u>
Net Capital assets being depreciated	<u>2,517,126</u>	( <u>171,154</u> )	_____	<u>2,345,972</u>
Net Governmental Activities Capital Assets	<u>\$2,740,389</u>	<u>\$( 171,154 )</u>	<u>\$ _____</u>	<u>2,569,235</u>
Internal Service Fund Net Capital Assets				<u>107,383</u>
Net Capital Assets per Statement of Net Assets				<u>\$2,676,618</u>

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 5: **CAPITAL ASSETS** – Continued

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
PRIMARY GOVERNMENT – Continued				
BUSINESS-TYPE ACTIVITIES				
SEWER				
Capital assets, not being depreciated				
Land	\$ <u>236,363</u>	\$ _____	\$ _____	\$ <u>236,363</u>
Capital assets, being depreciated				
Treatment system	3,449,218			3,449,218
Sewer connection lines	459,697			459,697
Machinery and equipment	<u>12,427</u>	_____	_____	<u>12,427</u>
Total capital assets being depreciated	<u>3,921,342</u>	_____	_____	<u>3,921,342</u>
Less: accumulated depreciation				
Treatment system	1,539,075	71,470		1,610,545
Sewer connection lines	297,305	9,193		306,498
Machinery and equipment	<u>12,162</u>	<u>190</u>	_____	<u>12,352</u>
Total accumulated depreciation	<u>1,848,542</u>	<u>80,853</u>	_____	<u>1,929,395</u>
Net capital assets being depreciated	<u>2,072,800</u>	( <u>80,853</u> )	_____	<u>1,991,947</u>
Net Sewer Capital Assets	\$ <u>2,309,163</u>	\$ ( <u>80,853</u> )	\$ _____	\$ <u>2,228,310</u>
WATER				
Capital assets, not being depreciated				
Land	\$ <u>23,713</u>	\$ _____	\$ _____	\$ <u>23,713</u>
Capital assets, being depreciated				
Machinery and equipment	718,815			718,815
Mains and connections	863,948			863,948
Wells and structures	<u>805,592</u>	_____	_____	<u>805,592</u>
Total capital assets being depreciated	<u>2,388,355</u>	_____	_____	<u>2,388,355</u>

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 5: **CAPITAL ASSETS - Concluded**

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
BUSINESS-TYPE ACTIVITIES – Concluded				
WATER – Concluded				
Less: accumulated depreciation				
Machinery and equipment	\$ 211,389	\$ 13,744	\$	\$ 225,133
Mains and connections	247,973	16,393		264,366
Wells and structures	<u>26,247</u>	<u>17,110</u>	<u>          </u>	<u>43,357</u>
Total accumulated depreciation	<u>485,609</u>	<u>47,247</u>	<u>          </u>	<u>532,856</u>
Total capital assets being depreciated, net	<u>1,902,746</u>	( <u>47,247</u> )	<u>          </u>	<u>1,855,499</u>
Water capital assets, net	<u>\$1,926,459</u>	<u>\$( 47,247 )</u>	<u>\$          </u>	<u>\$1,879,212</u>
Total capital assets, net				
Business-type activities	<u>\$4,235,622</u>	<u>\$( 128,100 )</u>	<u>\$          </u>	<u>\$4,107,522</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Unallocated depreciation	<u>\$171,154</u>
Business-type activities	
Sewer	\$ 80,853
Water	<u>47,247</u>
Total depreciation expense -- business-type activities	<u>\$128,100</u>

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

**NOTE 6: INTERFUND RECEIVABLES AND PAYABLES**

Individual fund interfund receivable and payable balances at June 30, 2006 were:

FUND	INTERFUND RECEIVABLES DUE FROM'S		INTERFUND PAYABLES DUE TO'S
<b>PRIMARY GOVERNMENT</b>			
General fund	\$ 15,939	Major streets	\$ 8,134
		Local streets	6,527
		Storm drain maintenance fund	<u>1,278</u>
Subtotal	<u>15,939</u>	Subtotal	<u>15,939</u>
Payroll fund	10,558	General fund	8,367
		Major streets	130
		Local streets	104
		Park fund	156
		Water supply	922
		Sewer disposal	768
		Equipment fund	<u>111</u>
Subtotal	<u>10,558</u>	Subtotal	<u>10,558</u>
Park fund	40,000	General fund	190,526
Water fund	146,351		
Equipment fund	<u>4,175</u>		
Subtotal	<u>190,526</u>	Subtotal	<u>190,526</u>
General fund	<u>1,028</u>	TIFA	<u>1,028</u>
Sunset Hills	<u>1,706</u>	Storm drain	<u>1,706</u>
TOTAL	<u>\$ 219,757</u>	TOTAL	<u>\$ 219,757</u>

All interfund loans were made for operating activities.

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

**NOTE 7: CHANGES IN LONG-TERM DEBT**

The following is a summary of debt transactions of the City of Potterville for the year ended June 30, 2006:

	GENERAL OBLIGATION BONDS	OTHER DEBT	COMPENSATED ABSENCES	TOTAL
<b>GOVERNMENTAL ACTIVITIES</b>				
Debt payable at July 1, 2005	\$ 1,025,000	\$ 57,298	\$ 16,514	\$ 1,098,812
Debt retired	( 225,000 )	( 25,090 )	( 6,102 )	( 256,192 )
New debt issued	<u>          </u>	<u>24,000</u>	<u>          </u>	<u>24,000</u>
<b>DEBT PAYABLE AT</b>				
JUNE 30, 2006	<u>\$ 800,000</u>	<u>\$ 56,208</u>	<u>\$ 10,412</u>	<u>\$ 866,620</u>

Debt payable at June 30, 2006 is comprised of the following individual issues:

**GOVERNMENTAL ACTIVITIES**

**GENERAL OBLIGATION**

\$400,000 Sunset Hills Special

Assessment Bonds, due in annual  
installments at 5.40% to 5.45% interest,  
payable from special assessments.

\$ 180,000

\$675,000 2005 City of Potterville

refunding issue, Building Authority,  
due in annual installments at 4.35% interest.

620,000

**OTHER DEBT**

**COMPENSATED ABSENCES**

Vested sick and vacation pay owed  
to City employees under various  
contracts and agreements (this debt  
is payable from the General Fund and  
various Special Revenue Funds)

10,412

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

NOTE PAYABLE – BANK

\$24,000 note payable to Ionia County  
National Bank for a police car,  
interest at 5.5%, due in  
annual installments. \$ 24,000

LEASE PURCHASE AGREEMENT –

GMC 1-1/2 TON PICKUP

\$47,588 Lease Purchase Agreement for a  
GMC 1-1/2 ton pick up truck at 5.0%  
interest. 18,864

LEASE PURCHASE AGREEMENT –

JOHN DEERE LOADER TRACTOR

\$40,030 Lease Purchase Agreement for a  
John Deere Loader tractor due in  
annual installments at 0% interest. 13,344

**TOTAL GOVERNMENTAL ACTIVITIES** **\$ 866,620**

The annual requirements to amortize debt outstanding other than vested sick and vacation pay as of June 30, 2006 are as follows:

	GENERAL OBLIGATION BONDS	OTHER DEBT	TOTAL
YEAR ENDING JUNE 30,			
2007 Principal	\$ 85,000	\$ 25,338	\$ 110,338
Interest	34,851	2,117	36,968
Total	119,851	27,455	147,306
2008 Principal	90,000	12,628	102,628
Interest	30,630	1,481	32,111
Total	120,630	14,109	134,739
2009 Principal	100,000	11,792	111,792
Interest	26,168	817	26,985
Total	126,168	12,609	138,777
2010 Principal	100,000	6,450	106,450
Interest	21,488	355	21,843
Total	121,488	6,805	128,293



**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

	GENERAL OBLIGATION BONDS	OTHER DEBT	TOTAL
2011 Principal	\$ 100,000	\$	\$ 100,000
Interest	16,808		16,808
Total	116,808		116,808
2012 Principal	105,000		105,000
Interest	11,019		11,019
Total	116,019		116,019
2013 Principal	80,000		80,000
Interest	7,830		7,830
Total	87,830		87,830
2014 Principal	85,000		85,000
Interest	4,241		4,241
Total	89,241		89,241
2015 Principal	55,000		55,000
Interest	1,196		1,196
Total	56,196		56,196
TOTAL			
Principal	800,000	56,208	856,208
Interest	154,231	4,770	159,001
Total	954,231	60,978	1,015,209

	GENERAL OBLIGATION BONDS	REVENUE BONDS	TOTAL
BUSINESS-TYPE ACTIVITIES			
Debt payable at July 1, 2005	\$ 670,000	\$ 305,000	\$ 975,000
Debt retired	( <u>15,000</u> )	( <u>18,000</u> )	( <u>33,000</u> )
DEBT PAYABLE AT JUNE 30, 2006	\$ <u>655,000</u>	\$ <u>287,000</u>	\$ <u>942,000</u>

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

**NOTE 7: CHANGES IN LONG-TERM DEBT – Continued**

**BUSINESS-TYPE ACTIVITIES**

**GENERAL OBLIGATION**

\$700,000 2002 Series, General  
Obligation Limited Tax Bonds,  
due in annual installments at 4.2%  
to 7.0% interest. \$ 655,000

**REVENUE BONDS**

\$551,000 1979 Series, Sewage  
Disposal System Revenue Bonds,  
due in annual installments at 5.0%  
interest. 287,000

**TOTAL BUSINESS-TYPE ACTIVITIES** \$ 942,000

The annual requirements to amortize all debt outstanding for the business-type activities as of June 30, 2006 are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION BONDS	REVENUE BONDS	TOTAL
2007 Principal	\$ 20,000	\$ 18,000	\$ 38,000
Interest	31,420	14,350	45,770
Total	51,420	32,350	83,770
2008 Principal	20,000	20,000	40,000
Interest	30,020	13,450	43,470
Total	50,020	33,450	83,470
2009 Principal	20,000	20,000	40,000
Interest	28,620	12,450	41,070
Total	48,620	32,450	81,070
2010 Principal	25,000	20,000	45,000
Interest	27,045	11,450	38,495
Total	52,045	31,450	83,495
2011 Principal	25,000	23,000	48,000
Interest	25,295	10,450	35,745
Total	50,295	33,450	83,745

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

	GENERAL OBLIGATION BONDS	REVENUE BONDS	TOTAL
2012 – 2016			
Principal	\$ 170,000	\$ 127,000	\$ 297,000
Interest	99,105	34,300	133,405
Total	269,105	161,300	430,405
2017 – 2021			
Principal	250,000	59,000	309,000
Interest	53,760	4,500	58,260
Total	303,760	63,500	367,260
2022 – 2023			
Principal	125,000		125,000
Interest	5,355		5,355
Total	130,355		130,355
TOTAL			
Principal	655,000	287,000	942,000
Interest	300,620	100,950	401,570
Total	955,620	387,950	1,343,570

The following is a summary of general obligation bond transactions of the component unit for the year ended June 30, 2006:

	GENERAL OBLIGATION BONDS
Debt payable at July 1, 2005	\$ 495,000
Debt retired	( <u>50,000</u> )
TOTAL	\$ <u>445,000</u>

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Concluded

The General obligation bond balance as of June 30, 2006, is as follows:

\$270,000, 1988 Series, Limited Tax Development Bonds, due in annual installments at 8.5% to 9.0% interest.	\$ 80,000
\$400,000, 2004 Series, Tax Increment Revenue Bonds, due in annual installments at 2.0% to 4.0% interest.	<u>365,000</u>
	<u>\$ 445,000</u>

The annual principal and interest requirement to amortize notes payable, capital lease obligations, land contracts, and general obligation bonds as of June 30, 2006, is as follows:

YEAR ENDED  
JUNE 30,

2007	Principal	\$ 60,000
	Interest	17,880
	Total	77,880
2008	Principal	55,000
	Interest	14,943
	Total	69,943
2009	Principal	60,000
	Interest	11,725
	Total	71,725
2010	Principal	35,000
	Interest	9,445
	Total	44,445
2011	Principal	35,000
	Interest	8,260
	Total	43,260
2012 - 2016	Principal	200,000
	Interest	20,400
	Total	220,400
Total	Principal	445,000
	Interest	82,653
	Total	527,653

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Continued  
JUNE 30, 2006

**NOTE 8: OPERATING TRANSFERS IN/OUT**

The following is a schedule of operating transfers between funds for the year ending June 30, 2006:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Park Fund	\$ 166,500	General Fund	\$ 242,500
Storm Drain Special Assessment Fund	30,000	Major Street Fund	24,388
Storm Drain Maintenance Fund	1,000	Storm Drain Special Assessment Bond Fund	38,608
Equipment Pool Fund	25,000		
Sunset Hills Special Assessment Bond Fund	20,000		
Local Street Fund	24,388		
General Fund	<u>38,608</u>		
<b>TOTAL</b>	<b>\$ <u>305,496</u></b>	<b>TOTAL</b>	<b>\$ <u>305,496</u></b>

The following is a schedule of operating transfers between the primary government and the joint venture for the year ending June 30, 2006:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Joint Venture	\$ <u>92,552</u>	Pottersville-Benton Township Fire Department	\$ <u>92,522</u>

All operating transfers were made for operating purposes.

**NOTE 9: EMPLOYEE RETIREMENT SYSTEMS**

Defined Contribution

The City has defined contribution pension plan with the Mass Mutual Life Insurance company which covers 8 to 11 employees who have satisfied eligibility requirements. Each employee becomes eligible after three years of service. Benefits vest at 20% per year until seven years of services at which point they are 100% vested.

The formula for determining contributions is based on an employee's annual compensation. The City has elected to contribute 10% of compensation. The employees do not contribute anything.

During the year, the City of Pottersville's required contributions amounted to \$40,297 which was 10% of its current year covered payroll. However, the City actually contributed \$30,975 which was due for the prior year.

## CITY OF POTTERVILLE, MICHIGAN

### NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2006

**NOTE 10: DEFERRED COMPENSATION PLAN**

The City of Potterville offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, section 457. The assets of the plan are held in trust, custodial account or annuity contract described in IRC section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these section 457 plans and the assets may not be diverted to any other use. The administrator is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB statement No. 32, plan balances and activities are not reflected in the City's financial statements.

**NOTE 11: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; workers' compensation; and natural disasters. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, error and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the past four years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool pursuant to the provision of Public Act 138 of 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Michigan Municipal Liability Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

**NOTE 12: RELATED PARTY TRANSACTIONS**

The City purchases health insurance from a Council Member's insurance agency. The total premiums paid during the year ended June 30, 2006 were \$69,275.

**NOTE 13: ACCUMULATED FUND DEFICITS**

The City had the following fund deficits at June 30, 2006:

Special Revenue	
Storm Drain Maintenance Fund	\$( 144 )
Debt Service	
Storm Drain Special	
Assessment Bond Fund	( 1,706 )

**CITY OF POTTERVILLE, MICHIGAN**  
NOTES TO FINANCIAL STATEMENTS – Concluded  
JUNE 30, 2006

**NOTE 14: SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS**

The City maintains three Enterprise Funds which provide equipment rentals, water and sewer services. Segment information for the year ended June 30, 2006, is as follows:

	WATER FUND	SEWER FUND	EQUIPMENT POOL FUND
Current assets	\$ 357,388	\$ 228,527	\$ 20,462
Restricted assets	6,118	50,136	
Net capital assets	1,879,212	2,228,310	107,383
Total assets	2,242,718	2,506,973	127,845
Current liabilities	47,023	38,922	28,523
Long-term liabilities	635,000	269,000	30,870
Total liabilities	682,023	307,922	59,393
Net assets invested in capital			
assets, net of related debt	1,224,212	1,941,310	21,176
Unrestricted net assets	336,483	257,741	47,276
Total net assets	1,560,695	2,199,051	68,452
Charges for services and rentals	224,121	186,936	50,610
Other operating revenues	17,818	5,944	5,865
Depreciation	47,247	80,853	20,302
Other operating expenses	192,904	179,925	47,543
Operating income (loss)	1,788	( 67,898 )	( 11,370 )
Nonoperating revenues (expenses)	14,866	25,054	( 2,315 )
Transfers in			25,000
Change in net assets	16,654	( 42,844 )	11,315
Net assets, beginning	1,544,041	2,241,895	57,137
Net assets, ending	1,560,695	2,199,051	68,452
Net cash provided by (used in)			
Operating activities	( 110,728 )	( 2,545 )	961
Noncapital financing activities	1,511	25	25,000
Capital and related			
financing activities	( 529 )	5,154	( 20,783 )
Investing activities		1,584	
Cash and cash			
equivalents – beginning	293,893	197,208	11,109
Cash and cash			
equivalents – ending	184,147	201,426	16,287

## REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUES				
Taxes				
Current portion	\$ 436,400	\$ 474,800	\$ 479,729	\$ 4,929
Administration fees	16,000	19,033	19,829	796
Trailer court tax	1,600	1,500	1,517	17
Penalties and interest	500	500	754	254
Total Taxes	<u>454,500</u>	<u>495,833</u>	<u>501,829</u>	<u>5,996</u>
Licenses and Permits				
Permits	<u>2,000</u>	<u>2,400</u>	<u>2,550</u>	<u>150</u>
State Grants				
State revenue sharing				
Sales and use tax	213,752	221,000	221,483	483
Liquor licenses	<u>1,258</u>	<u>1,600</u>	<u>1,653</u>	<u>53</u>
Total State Grants	<u>215,010</u>	<u>222,600</u>	<u>223,136</u>	<u>536</u>
Fines and Forfeits	<u>350</u>	<u>225</u>	<u>234</u>	<u>9</u>
Interest and Rents				
Interest	<u>1,000</u>	<u>63,000</u>	<u>65,965</u>	<u>2,965</u>
Other Revenue				
Communication tower lease	18,000	16,000	17,375	1,375
Election reimbursements	1,000	2,500	2,602	102
Miscellaneous	<u>20,000</u>	<u>4,000</u>	<u>30,396</u>	<u>26,396</u>
Total Other Revenue	<u>39,000</u>	<u>22,500</u>	<u>50,373</u>	<u>27,873</u>
TOTAL REVENUES	<u>\$ 711,860</u>	<u>\$ 806,558</u>	<u>\$ 844,087</u>	<u>\$ 37,529</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND - Continued**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES				
LEGISLATIVE				
Salaries	\$ 7,000	\$ 8,000	\$ 9,860	\$ (1,860)
Social security	434	634	611	23
Medicare	100	200	143	57
State unemployment	56	56		56
Publication	500	2,455	2,452	3
Operating supplies	100	100	49	51
Expense	200	200	117	83
Workers compensation insurance	60	60	1	59
TOTAL LEGISLATIVE	<u>8,450</u>	<u>11,705</u>	<u>13,233</u>	<u>(1,528)</u>
GENERAL GOVERNMENT				
Mayor				
Wages - part-time	500	500	900	(400)
Social security	105	105	56	49
Medicare	24	24	13	11
State unemployment	36	36		36
Total Mayor	<u>665</u>	<u>665</u>	<u>969</u>	<u>(304)</u>
City Manager				
Salaries	26,265	41,000	38,803	2,197
Social security	3,162	2,662	2,526	136
Medicare	740	740	591	149
Pension	2,627	4,100	4,085	15
State unemployment	408	408	316	92
Computer software	400	400	400	
Office supplies	700	725	1,638	(913)
Conferences and workshops	400	200	185	15
Health insurance	1,116	400	401	(1)
Workers compensation insurance	200	25	2	23
Disability and life	500	275	284	(9)
Total City Manager	<u>36,518</u>	<u>50,935</u>	<u>49,231</u>	<u>1,704</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND - Continued**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Continued				
Elections				
Wages - part-time	\$	\$ 150	\$ 130	\$ 20
Publication	700	1,250	1,238	12
Supplies	700	775	761	14
Office supplies	500	1,650	1,649	1
Contract labor	1,000	1,800	1,756	44
Total Elections	2,900	5,625	5,534	91
Independent Audit and Accounting				
Professional services	2,140	2,200	2,200	
Treasurer				
Salaries	39,406	36,500	36,101	399
Social security	1,447	2,300	2,309	(9)
Medicare	338	550	540	10
Pension	3,941	2,650	2,602	48
State unemployment	722	250	236	14
Benton Township 425 tax agreement	9,500	9,300	9,228	72
Supplies	500	100	91	9
Postage	800	1,300	1,285	15
Computer software	1,200	1,500	3,979	(2,479)
Office supplies	1,000	500	440	60
Telephone expense		1,300	1,300	
Health insurance	1,800	4,300	4,237	63
Workers compensation insurance	77	77	3	74
Disability and life		400	172	228
Liability insurance	1,542	1,542	1,500	42
Miscellaneous			(10)	10
Total Treasurer	62,273	62,569	64,013	(1,444)
Assessor				
Salaries	11,000	11,500	11,324	176
Social security	682	682	689	(7)
Medicare	159	159	161	(2)
State unemployment	334	600	638	(38)
Publication	52	52		52
Supplies	250	50	35	15
Postage	1,200	500	470	30
Office supplies	450	400	390	10
Workers compensation insurance	36	5		5
Total Assessor	14,163	13,948	13,707	241

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND - Continued**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Concluded				
Attorney				
Professional services	\$ 22,000	\$ 48,100	\$ 47,003	\$ 1,097
City Clerk's Office				
Salaries	52,500	38,000	39,707	(1,707)
Social security	3,260	2,260	2,200	60
Medicare	761	500	514	(14)
Pension	2,250			
State unemployment	1,485	1,350	1,334	16
Publication	100	125	29	96
Postage	200	50	37	13
Computer software	400	400	389	11
Office supplies	200	600	561	39
Health insurance		4,600	4,645	(45)
Workers compensation insurance	223	223	201	22
Disability and life		175	316	(141)
Dues and subscriptions	100	175	175	
Liability insurance	150	150	65	85
Total City Clerk's Office	61,629	48,608	50,173	(1,565)
Board of Review				
Contract labor	1,100	900	900	
Building and Grounds - City Hall				
Publication		750	709	41
Supplies	4,000	4,000	3,803	197
Postage		350	316	34
Repairs and maintenance		50	9	41
Computer software			225	(225)
Service	3,200	4,100	4,069	31
Office supplies	150	450	450	
Telephone expense	6,500	3,300	3,237	63
Liability insurance	4,000	4,000	4,000	
Utilities	5,500	8,300	7,677	623
Dues and subscriptions		1,500	1,477	23
Capital outlay	2,000	700	700	
Miscellaneous	200	3,000	3,466	(466)
Total Building and Grounds - City Hall	25,550	30,500	30,138	362
TOTAL GENERAL GOVERNMENT	228,938	264,050	263,868	182

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND - Continued**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
PUBLIC SAFETY				
Police Department				
Salaries	\$ 102,232	\$ 109,000	\$ 108,084	\$ 916
Crossing guard salary	1,700	2,750	2,584	166
Social security	5,623	6,750	6,975	(225)
Medicare	1,315	1,600	1,631	(31)
Pension	10,223	10,800	11,251	(451)
State unemployment	1,500	1,500	1,433	67
Uniform expenses	1,000	700	682	18
Supplies	2,000	1,250	891	359
Repairs and maintenance	2,500	4,600	3,504	1,096
Training		850	802	48
Telephone expense		450	428	22
Gas and oil	4,000	2,600	3,263	(663)
Health insurance	23,900	28,000	26,961	1,039
Workers compensation insurance	274	274	241	33
Disability and life		850	916	(66)
Liability insurance	4,700	2,800	2,754	46
Equipment rental			4,175	(4,175)
Capital outlay	200	4,100	100	4,000
Miscellaneous	1,000	575	174	401
Police state training	400	975	962	13
Total Police Department	<u>162,567</u>	<u>180,424</u>	<u>177,811</u>	<u>2,613</u>
Fire Department				
Hydrant rental	<u>92,552</u>	<u>92,555</u>	<u>92,552</u>	<u>3</u>
Planning Commission				
Salaries	6,800	5,500	6,575	(1,075)
Social security	422	422	412	10
Medicare	99	99	96	3
State unemployment	300	25	25	
Publication	300	75	52	23
Total Planning Commission	<u>7,921</u>	<u>6,121</u>	<u>7,160</u>	<u>(1,039)</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND - Continued**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
PUBLIC SAFETY - Concluded				
Zoning Commission				
Publication	\$ 500	\$ 550	\$ 521	\$ 29
TOTAL PUBLIC SAFETY	<u>263,540</u>	<u>279,650</u>	<u>278,044</u>	<u>1,606</u>
PUBLIC WORKS				
Administration				
Salaries	11,000	7,200	7,696	(496)
Social security	680	450	485	(35)
Medicare	160	160	114	46
Pension	1,100	750	782	(32)
State unemployment	660	50	38	12
Uniform expenses	240	750	773	(23)
Supplies	800	350	297	53
Office supplies	1,500	3,000	2,781	219
Health insurance		6,500	6,492	8
Workers compensation insurance	54	54		54
Disability and life		1,150	945	205
Utilities	140	450	415	35
Equipment rental	2,000	1,200	1,118	82
Total Administration	<u>18,334</u>	<u>22,064</u>	<u>21,936</u>	<u>128</u>
Sidewalks				
Street materials and supplies	<u>4,000</u>	<u>3,300</u>	<u>3,290</u>	<u>10</u>
Street Lights				
Utilities	<u>20,000</u>	<u>15,500</u>	<u>13,891</u>	<u>1,609</u>
TOTAL PUBLIC WORKS	<u>42,334</u>	<u>40,864</u>	<u>39,117</u>	<u>1,747</u>
DEBT SERVICE				
Principal			140,476	(140,476)
Interest and fiscal charges			5,876	(5,876)
TOTAL DEBT SERVICE			<u>146,352</u>	<u>(146,352)</u>
TOTAL EXPENDITURES	<u>543,262</u>	<u>596,269</u>	<u>740,614</u>	<u>(144,345)</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>168,598</u>	<u>210,289</u>	<u>103,473</u>	<u>106,816</u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND - Concluded  
FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Other funds	\$	\$	\$ 38,608	\$ 38,608
Operating transfers out				
Park Fund	(86,500)	(126,500)	(166,500)	(40,000)
Storm Drain Maintenance	(1,000)	(1,000)	(1,000)	
Equipment Fund	(25,000)	(25,000)	(25,000)	
Storm Drain Debt Fund	(30,000)	(30,000)	(30,000)	
Sunset Hills Debt Fund		(20,000)	(20,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(142,500)</u>	<u>(202,500)</u>	<u>(203,892)</u>	<u>(1,392)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>26,098</u>	<u>7,789</u>	<u>(100,419)</u>	<u>(108,208)</u>
FUND BALANCE, JULY 1	<u>131,560</u>	<u>131,560</u>	<u>131,560</u>	
FUND BALANCE, JUNE 30	\$ <u><u>157,658</u></u>	\$ <u><u>139,349</u></u>	\$ <u><u>31,141</u></u>	\$ <u><u>(108,208)</u></u>

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUES				
State grants				
State revenue sharing - Act 51	\$ 97,555	\$ 93,250	\$ 93,622	\$ 372
Interest	1,000	3,525	3,985	460
Miscellaneous		625	626	1
TOTAL REVENUES	<u>98,555</u>	<u>97,400</u>	<u>98,233</u>	<u>833</u>
EXPENDITURES				
PUBLIC WORKS				
Street Construction				
Engineer fees		75	60	15
Street Construction - Vermontville Highway				
Engineer fees		75		75
Contract labor		8,200	8,178	22
Total Street Construction - Vermontville Highway		<u>8,275</u>	<u>8,178</u>	<u>97</u>
Routine Maintenance				
Salaries	19,500	13,500	13,628	(128)
Social security	578	850	881	(31)
Medicare	134	200	206	(6)
Pension	1,950	1,300	1,329	(29)
State unemployment	98	200	136	64
Uniform expenses	400	400	345	55
Street materials and supplies	9,700	2,600	2,571	29
Audit	2,140	2,200	2,200	
Contract labor		100	86	14
Health insurance	3,400	2,750	2,173	577
Workers compensation insurance	1,700	2,200	2,127	73
Disability and life	213	213	147	66
Equipment rentals	5,200	3,000	2,992	8
Total Routine Maintenance	<u>45,013</u>	<u>29,513</u>	<u>28,821</u>	<u>692</u>
Special Maintenance				
Tree trimming	<u>500</u>	<u>500</u>	<u>500</u>	



**CITY OF POTTERVILLE, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL**

**MAJOR STREET FUND - Concluded**

**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Concluded				
PUBLIC WORKS - Concluded				
Winter Maintenance				
Salaries	\$	\$ 3,700	\$ 3,691	\$ 9
Social security		300	229	71
Medicare		100	54	46
Pension		500	369	131
State unemployment		150	129	21
Street materials and supplies		3,800	4,124	(324)
Health insurance		1,650	1,613	37
Disability and life		50	49	1
Total Winter Maintenance		10,250	10,258	(8)
Traffic Signs				
Street materials and supplies	200	1,300	1,293	7
TOTAL PUBLIC WORKS	45,713	49,913	49,110	803
DEBT SERVICE				
Principal		5,055	5,054	1
Interest and fiscal charges		540	538	2
TOTAL DEBT SERVICE		5,595	5,592	3
TOTAL EXPENDITURES	45,713	55,508	54,702	806
EXCESS OF REVENUES OVER EXPENDITURES	52,842	41,892	43,531	1,639
OTHER FINANCING USES				
Operating transfers out				
Local Street Fund	(24,388)	(24,388)	(24,388)	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	28,454	17,504	19,143	1,639
FUND BALANCE, JULY 1	108,300	108,300	108,300	
FUND BALANCE, JUNE 30	\$ 136,754	\$ 125,804	\$ 127,443	\$ 1,639

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
<b>REVENUES</b>				
State grants				
State revenue sharing - Act 51	\$ 36,634	\$ 35,000	\$ 35,176	\$ 176
Interest and rents				
Interest	1,200	2,000	2,266	266
Other revenue				
Miscellaneous	1,500	125	328	203
<b>TOTAL REVENUES</b>	<b>39,334</b>	<b>37,125</b>	<b>37,770</b>	<b>645</b>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Routine Maintenance				
Salaries	19,500	10,000	10,201	(201)
Social security	498	650	659	(9)
Medicare	117	150	154	(4)
Pension	1,950	1,000	1,028	(28)
State unemployment	65	65	41	24
Uniform expenses	400	400	345	55
Street materials and supplies	1,500	550	412	138
Service			(3)	3
Audit	2,140	2,200	2,200	
Contract labor	195	83,000	82,797	203
Health insurance	2,500	2,600	2,129	471
Workers compensation insurance	31	31	1	30
Disability and life	186	186	138	48
Liability insurance	2,369	5,500	5,350	150
Equipment rentals	4,000	4,200	4,147	53
<b>Total Routine Maintenance</b>	<b>35,451</b>	<b>110,532</b>	<b>109,599</b>	<b>933</b>
Winter Maintenance				
Salaries		3,100	3,016	84
Social security		300	187	113
Medicare		100	44	56
Pension		325	302	23
State unemployment		150	107	43
Street materials and supplies		1,800	1,737	63
Health insurance		1,700	1,655	45
Disability and life		150	49	101
<b>Total Winter Maintenance</b>		<b>7,625</b>	<b>7,097</b>	<b>528</b>

**CITY OF POTTERVILLE, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL**

**LOCAL STREET FUND - Concluded**

**FOR THE YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Concluded				
PUBLIC WORKS - Concluded				
Traffic Signs				
Street materials and supplies	\$ <u>200</u>	\$ <u>200</u>	\$ <u>102</u>	\$ <u>98</u>
TOTAL EXPENDITURES	<u>35,651</u>	<u>118,357</u>	<u>116,798</u>	<u>1,559</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,683</u>	<u>(81,232)</u>	<u>(79,028)</u>	<u>2,204</u>
OTHER FINANCING SOURCES				
Operating transfers in				
Major Street Fund	<u>24,388</u>	<u>24,388</u>	<u>24,388</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	<u>28,071</u>	<u>(56,844)</u>	<u>(54,640)</u>	<u>2,204</u>
FUND BALANCE, JULY 1	<u>90,327</u>	<u>90,327</u>	<u>90,327</u>	
FUND BALANCE, JUNE 30	<u><u>\$ 118,398</u></u>	<u><u>\$ 33,483</u></u>	<u><u>\$ 35,687</u></u>	<u><u>\$ 2,204</u></u>

## NON MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The City's Nonmajor Special Revenue Funds include the Park Fund and the Storm Drain Maintenance Fund.

CITY OF POTTERVILLE, MICHIGAN  
BALANCE SHEET  
NON MAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2006

	PARK FUND	STORM DRAIN MAINTENANCE FUND	TOTAL
ASSETS			
Cash	\$ 5,706	\$ 1,134	\$ 6,840
Due from other funds	40,000		40,000
Bond discount	22,500		22,500
TOTAL ASSETS	<u>\$ 68,206</u>	<u>\$ 1,134</u>	<u>\$ 69,340</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Pension payable	\$ 527	\$	\$ 527
Due to other funds	156	1,278	1,434
TOTAL LIABILITIES	<u>683</u>	<u>1,278</u>	<u>1,961</u>
FUND BALANCE			
Reserved for debt service	67,523		67,523
Reserved for storm drain maintenance		(144)	(144)
TOTAL FUND BALANCE	<u>67,523</u>	<u>(144)</u>	<u>67,379</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 68,206</u>	<u>\$ 1,134</u>	<u>\$ 69,340</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**PARK FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	BUDGET	ACTUAL	VARIANCE
<b>REVENUES</b>			
Fees and Rents			
3% Cable television	\$ 6,300	\$ 6,394	\$ 94
League fees	7,000	7,150	150
Player fees	4,600	4,649	49
Tournament fees	7,500	7,730	230
Field rental	1,000	1,225	225
Pavillion rent	1,000	1,325	325
Concessions	1,800	1,873	73
Miscellaneous	25	25	
<b>TOTAL REVENUES</b>	<u>29,225</u>	<u>30,371</u>	<u>1,146</u>
<b>EXPENDITURES</b>			
Recreation and Culture			
Lake Alliance Maintenance			
Salaries	4,500	3,875	625
Social security	320	274	46
Medicare	73	64	9
Pension	500	441	59
State unemployment	200	40	160
Repairs and maintenance	100		100
Service	200		200
Office supplies	250		250
Health insurance	1,000	884	116
Disability and life	100	71	29
Equipment rental	4,000	3,859	141
<b>Total Lake Alliance Maintenance</b>	<u>11,243</u>	<u>9,508</u>	<u>1,735</u>
City Park Maintenance			
Salaries	7,500	6,864	636
Social security	560	453	107
Medicare	130	106	24
Pension	900	730	170
State unemployment	50	40	10
Supplies	500	437	63
Service	1,030	808	222
Office supplies	1,700	1,831	(131)
Contract labor	1,200	1,162	38
Health insurance	2,100	2,042	58
Workers compensation insurance	34	12	22
Disability and life	124	81	43
Utilities	400	139	261
Equipment rental	4,100	4,086	14
<b>Total City Park Maintenance</b>	<u>20,328</u>	<u>18,791</u>	<u>1,537</u>

**CITY OF POTTERVILLE, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL**

**PARK FUND - Concluded**

**FOR THE YEAR ENDED JUNE 30, 2006**

	BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Concluded			
Ball Field			
Salaries	\$ 150	\$ 118	\$ 32
Social security	100	7	93
Medicare	50	2	48
Pension	100	12	88
Supplies	4,500	4,066	434
Repairs and maintenance	3,000	2,931	69
Service	850	820	30
Advertising	1,500	1,332	168
Trophies and awards	500	472	28
Contract labor	25,000	24,954	46
Utilities	5,500	4,496	1,004
Refund and rebates		(40)	40
Total Ball Field	<u>41,250</u>	<u>39,170</u>	<u>2,080</u>
Mud Bog			
Supplies		(84)	84
Service	50	15	35
Total Mud Bog	<u>50</u>	<u>(69)</u>	<u>119</u>
Total Recreation and Culture	<u>72,871</u>	<u>67,400</u>	<u>5,471</u>
Debt Service			
Principal	55,000	55,000	
Interest	28,167	30,666	(2,499)
Fiscal charges	225	225	
Total Debt Service	<u>83,392</u>	<u>85,891</u>	<u>(2,499)</u>
TOTAL EXPENDITURES	<u>156,263</u>	<u>153,291</u>	<u>2,972</u>
DEFICIENCY OF REVENUES			
OVER EXPENDITURES	<u>(127,038)</u>	<u>(122,920)</u>	<u>(4,118)</u>
OTHER FINANCING SOURCES			
Operating transfers in			
General Fund	<u>126,500</u>	<u>166,500</u>	<u>40,000</u>
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES AND			
OTHER SOURCES	<u>(538)</u>	<u>43,580</u>	<u>44,118</u>
FUND BALANCE, JULY 1	<u>23,943</u>	<u>23,943</u>	
FUND BALANCE, JUNE 30	<u>\$ 23,405</u>	<u>\$ 67,523</u>	<u>\$ 44,118</u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
STORM DRAIN MAINTENANCE FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET	ACTUAL	VARIANCE
EXPENDITURES			
Public Works			
Salaries	\$ 192	\$ 191	\$ 1
Social security	12	12	
Medicare	3	3	
Pension	20	19	1
Contract labor	925	919	6
	<u>1,152</u>	<u>1,144</u>	<u>8</u>
Total Public Works			
	<u>1,152</u>	<u>1,144</u>	<u>8</u>
TOTAL EXPENDITURES			
	<u>1,152</u>	<u>1,144</u>	<u>8</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,152)</u>	<u>(1,144)</u>	<u>(8)</u>
OTHER FINANCING SOURCES			
Operating transfers in General Fund	<u>1,000</u>	<u>1,000</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	<u>(152)</u>	<u>(144)</u>	<u>8</u>
FUND BALANCE, JULY 1	<u></u>	<u></u>	<u></u>
FUND BALANCE, JUNE 30	<u><u>\$ (152)</u></u>	<u><u>\$ (144)</u></u>	<u><u>\$ 8</u></u>



## DEBT SERVICE FUNDS

Debt Service Funds are established to finance and account for the payment of interest and principal on all general obligation debt and revenue bonds issued for and serviced by a governmental enterprise.

The City's Debt Service Funds include the Storm Drain Special Assessment Bond Fund and Sunset Hills Special Assessment Bond Funds.

## CITY OF POTTERVILLE, MICHIGAN

## BALANCE SHEET

## NON MAJOR DEBT SERVICE FUNDS

JUNE 30, 2006

	STORM DRAIN SPECIAL ASSESSMENT BOND FUND	SUNSET HILLS SPECIAL ASSESSMENT BOND FUND	TOTAL
ASSETS			
Cash	\$	\$ 124,260	\$ 124,260
Special assessments	28,856	49,024	77,880
Due from other funds		1,706	1,706
TOTAL ASSETS	\$ <u>28,856</u>	\$ <u>174,990</u>	\$ <u>203,846</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to other funds	\$ 1,706	\$ 49,024	\$ 1,706
Deferred revenue	<u>28,856</u>	<u>49,024</u>	<u>77,880</u>
TOTAL LIABILITIES	<u>30,562</u>	<u>49,024</u>	<u>79,586</u>
FUND BALANCE			
Reserved for debt service	<u>(1,706)</u>	<u>125,966</u>	<u>124,260</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>28,856</u>	\$ <u>174,990</u>	\$ <u>203,846</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**STORM DRAIN SPECIAL ASSESSMENT BOND FUND**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Special assessments	\$ <u>9,450</u>	\$ <u>9,463</u>	\$ <u>13</u>
EXPENDITURES			
Debt service			
Interest and fiscal charges	<u>5,250</u>	<u>5,201</u>	<u>49</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>4,200</u>	<u>4,262</u>	<u>62</u>
OTHER FINANCING SOURCES (USES)			
Transfer in from other funds	30,000	30,000	
Transfer out to other funds	<u>          </u>	<u>(38,608)</u>	<u>(38,608)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>30,000</u>	<u>(8,608)</u>	<u>(38,608)</u>
EXCESS (DEFICIENCY) OF REVENUES AND SOURCES OVER EXPENDITURES AND OTHER USES	34,200	(4,346)	(38,546)
FUND BALANCE, JULY 1	<u>2,640</u>	<u>2,640</u>	<u>          </u>
FUND BALANCE, JUNE 30	\$ <u><u>36,840</u></u>	\$ <u><u>(1,706)</u></u>	\$ <u><u>(38,546)</u></u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
SUNSET HILLS SPECIAL ASSESSMENT BOND FUND  
YEAR ENDED JUNE 30, 2006

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Special assessments	\$ <u>21,015</u>	\$ <u>21,015</u>	\$ _____
EXPENDITURES			
Debt service			
Principal	30,000	30,000	
Interest and fiscal charges	<u>10,905</u>	<u>10,905</u>	_____
TOTAL EXPENDITURES	<u>40,905</u>	<u>40,905</u>	_____
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(19,890)</u>	<u>(19,890)</u>	_____
OTHER FINANCING SOURCES			
Transfer in from other funds	<u>20,000</u>	<u>20,000</u>	_____
EXCESS OF REVENUES AND SOURCES OVER EXPENDITURES AND OTHER USES	110	110	
FUND BALANCE, JULY 1	<u>125,856</u>	<u>125,856</u>	_____
FUND BALANCE, JUNE 30	\$ <u><u>125,966</u></u>	\$ <u><u>125,966</u></u>	\$ <u><u>          </u></u>

## ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The City operates its Water Supply and Sewage Disposal as Enterprise Funds.

**CITY OF POTTERVILLE, MICHIGAN**

**STATEMENT OF NET ASSETS**

**WATER SUPPLY SYSTEM**

JUNE 30, 2006

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 184,147
Accounts receivable	23,914
Due from other funds	146,351
Prepaid expenses	2,976
<b>TOTAL CURRENT ASSETS</b>	<u>357,388</u>

**RESTRICTED ASSETS**

Cash	<u>6,118</u>
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**CAPITAL ASSETS**

Land	23,713
Mains and connections	846,958
Wells and controls	822,582
Machinery and equipment	718,815
	<u>2,412,068</u>
Less: accumulated depreciation	(532,856)

<b>NET CAPITAL ASSETS</b>	<u>1,879,212</u>
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<b>TOTAL ASSETS</b>	<u><u>\$ 2,242,718</u></u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 3,736
Accrued payroll	1,069
Accrued interest payable	7,898
Customer deposits payable	7,629
Pension payable	2,415
Due to other funds	922
Accrued compensated absences	3,354
<b>TOTAL CURRENT LIABILITIES</b>	<u>27,023</u>

**CURRENT LIABILITIES PAYABLE**

**FROM RESTRICTED ASSETS**

Current portion of long-term debt	
Water system bonds	<u>20,000</u>

**LONG-TERM LIABILITIES**

Revenue bonds payable	<u>635,000</u>
<b>TOTAL LIABILITIES</b>	<u>682,023</u>

**NET ASSETS**

Invested in capital assets, net of related debt	1,224,212
Unrestricted	<u>336,483</u>

<b>TOTAL NET ASSETS</b>	<u>1,560,695</u>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,242,718</u></u>
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**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS**  
**WATER SUPPLY SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**OPERATING REVENUES**

Charges for services	
Sales	\$ 224,121
Other revenue	
Penalties on delinquent accounts	2,998
Miscellaneous	14,820
<b>TOTAL OPERATING REVENUES</b>	<u>241,939</u>

**OPERATING EXPENSES**

Public Works	
Administration and General	
Salaries	46,163
Social security	3,201
Medicare	749
Pension	2,941
State unemployment	839
Uniform expense	578
Liability insurance	2,650
Computer software	2,741
Operating supplies	5,696
Postage	1,027
DPW repairs and maintenance	571
Legal	1,272
Service	8,192
Professional services	2,200
Engineer fees	789
Office supplies	2,994
Contract labor	8,214
Membership and dues	300
Publications	1,208
Telephone	(40)
Health insurance	7,781
Workers Compensation insurance	1,694
Disability and life insurance	558
Utilities	6,766
Equipment rental	11,562
Total Administrative and General Expenses	<u>120,646</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS**  
**WATER SUPPLY SYSTEM - Concluded**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**OPERATING EXPENSES - Concluded**

Collection and Distribution

Salaries	\$ 30,181
Social security	2,155
Medicare	504
Pension	3,475
State unemployment	427
Operating supplies and capital outlay	1,314
Service	4,121
Meters	1,722
Office supplies	2,259
Health insurance	8,809
Disability and life insurance	207
Utilities	11,874
Equipment rental	5,207
Depreciation	47,247

Total Collection and Distribution	119,502
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Well project

Engineer fees	3
---------------	---

TOTAL EXPENDITURES	240,151
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OPERATING INCOME	1,788
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**NONOPERATING REVENUES (EXPENSES)**

Hook-up fees	47,366
Interest and fiscal charges	(32,500)

TOTAL NONOPERATING REVENUES (EXPENSES)	14,866
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CHANGES IN NET ASSETS	16,654
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NET ASSETS, JULY 1	1,544,041
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NET ASSETS, JUNE 30	\$ 1,560,695
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CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF CASH FLOWS  
WATER SUPPLY SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Customers and other revenues	\$ 93,578
Suppliers for goods and services	(148,081)
Employees for services	(56,225)
NET CASH USED IN OPERATING ACTIVITIES	<u>(110,728)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Restricted cash	1,142
Customer deposits payable	369
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,511</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds	
Hook up fees	47,366
Debt	
Principal	(15,000)
Interest	(32,895)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(529)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(109,746)
CASH AND CASH EQUIVALENTS, JULY 1	<u>293,893</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 184,147</u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF CASH FLOWS  
WATER SUPPLY SYSTEM - Concluded  
FOR THE YEAR ENDED JUNE 30, 2006

RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ <u>1,788</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	47,247
(Increase) decrease in current assets	
Accounts receivable	(2,010)
Due from other funds	(146,351)
Prepaid expenses	(2,976)
Increase (decrease) in current liabilities	
Accounts payable	1,636
Accrued payroll	(4,688)
Accrued compensated absences	(5,374)
TOTAL ADJUSTMENTS	<u>(112,516)</u>
NET CASH USED IN OPERATING ACTIVITIES	\$ <u><u>(110,728)</u></u>

## CITY OF POTTERVILLE, MICHIGAN

## STATEMENT OF NET ASSETS

## SEWAGE DISPOSAL SYSTEM

JUNE 30, 2006

## ASSETS

## CURRENT ASSETS

Cash	\$ 201,426
Accounts receivable	24,125
Prepaid expenses	2,976
TOTAL CURRENT ASSETS	<u>228,527</u>

## RESTRICTED ASSETS

Cash	<u>50,136</u>
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## CAPITAL ASSETS

Land	236,363
Treatment systems	83,377
Collection lines	3,825,538
Machinery and equipment	12,427
	<u>4,157,705</u>
Less: accumulated depreciation	<u>(1,929,395)</u>

NET CAPITAL ASSETS	<u>2,228,310</u>
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TOTAL ASSETS	<u>\$ 2,506,973</u>
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## LIABILITIES AND NET ASSETS

## CURRENT LIABILITIES

Accounts payable	\$ 3,302
Accrued payroll	1,158
Accrued interest payable	2,359
Customer deposits payable	7,629
Pension payable	2,443
Due to other funds	768
Accrued compensated absences	3,263

TOTAL CURRENT LIABILITIES	<u>20,922</u>
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## CURRENT LIABILITIES PAYABLE

## FROM RESTRICTED ASSETS

Current portion of long-term debt	
Revenue bonds payable	<u>18,000</u>

## LONG-TERM LIABILITIES

Revenue bonds payable	<u>269,000</u>
TOTAL LIABILITIES	<u>307,922</u>

## NET ASSETS

Invested in capital assets, net of related debt	1,941,310
Unrestricted	257,741

TOTAL NET ASSETS	<u>2,199,051</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,506,973</u>
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**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS**  
**SEWAGE DISPOSAL SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**OPERATING REVENUES**

Charges for services	
Sales	\$ 186,936
Other revenue	
Penalties on delinquent accounts	5,265
Miscellaneous	679
<b>TOTAL OPERATING REVENUES</b>	<u>192,880</u>

**OPERATING EXPENSES**

Public Works	
Administration and General	
Salaries	43,463
Social security	3,035
Medicare	710
Pension	2,613
State unemployment	835
Uniform expenses	578
Liability insurance	5,200
Computer software	2,741
Operating supplies	5,000
Postage	1,011
Repairs and maintenance	19
DPW repairs and maintenance	296
Equipment rental	9,858
Legal	1,053
Service	3,956
Professional services	2,200
Office supplies	868
Contract labor	4,109
Telephone	(40)
Conference and workshops	215
Health insurance	6,486
Workers compensation insurance	4,661
Disability and life insurance	663
Utilities	5,743
Miscellaneous	(40)
Total Administrative and General	<u>105,233</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS**  
**SEWAGE DISPOSAL SYSTEM - Concluded**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**OPERATING EXPENSES - Concluded**

Collection and Distribution

Salaries	\$ 40,360
Social security	2,673
Medicare	625
Pension	4,312
State unemployment	606
Operating supplies	884
Meters	917
Service	2,635
Office supplies	2,012
Health insurance	9,223
Disability and life insurance	207
Utilities	6,168
Equipment rental	4,070
Depreciation	80,853

Total Collection and Distribution	155,545
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TOTAL EXPENDITURES	260,778
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OPERATING LOSS	(67,898)
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**NONOPERATING REVENUES (EXPENSES)**

Interest income	1,584
Hook-up fees	38,404
Interest and fiscal charges	(14,934)

TOTAL NONOPERATING REVENUES (EXPENSES)	25,054
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CHANGES IN NET ASSETS	(42,844)
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NET ASSETS, JULY 1	2,241,895
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NET ASSETS, JUNE 30	\$ 2,199,051
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CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF CASH FLOWS  
SEWAGE DISPOSAL SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Customers and other revenues	\$ 186,602
Suppliers for goods and services	(97,054)
Employees for services	(92,093)
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,545)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Restricted cash	(344)
Customer deposits payable	369
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>25</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds	
Hook-up fees	38,404
Debt	
Principal	(18,000)
Interest	(15,250)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>5,154</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,584</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,218
CASH AND CASH EQUIVALENTS, JULY 1	<u>197,208</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 201,426</u></u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF CASH FLOWS  
SEWAGE DISPOSAL SYSTEM - Concluded  
FOR THE YEAR ENDED JUNE 30, 2006

RECONCILIATION OF OPERATING LOSS	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ <u>(67,898)</u>
Adjustments to reconcile operating loss to	
net cash provided by operating activities	
Depreciation	80,853
(Increase) decrease in current assets	
Accounts receivable	(6,278)
Prepaid expenses	(2,976)
Increase (decrease) in current liabilities	
Accounts payable	2,024
Accrued payroll	(3,636)
Accrued compensated absences	<u>(4,634)</u>
TOTAL ADJUSTMENTS	<u>65,353</u>
NET CASH USED IN OPERATING ACTIVITIES	\$ <u><u>(2,545)</u></u>

## INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Equipment Pool Fund is operated as an Internal Service Fund.



## CITY OF POTTERVILLE, MICHIGAN

## STATEMENT OF NET ASSETS

## EQUIPMENT POOL FUND

JUNE 30, 2006

## ASSETS

## CURRENT ASSETS

Cash	\$ 16,287
Due from other funds	4,175
TOTAL CURRENT ASSETS	<u>20,462</u>

## CAPITAL ASSETS

Vehicles	191,042
Machinery and equipment	<u>148,694</u>
	339,736
Less: accumulated depreciation	<u>(232,353)</u>
NET CAPITAL ASSETS	<u>107,383</u>
TOTAL ASSETS	<u><u>\$ 127,845</u></u>

## LIABILITIES AND NET ASSETS

## CURRENT LIABILITIES

Accounts payable	\$ 666
Due to other funds	111
Accrued payroll	131
Pension payable	377
Accrued interest payable	1,014
Accrued compensated absences	887
Current portion of long-term debt	<u>25,337</u>
TOTAL CURRENT LIABILITIES	<u>28,523</u>

## LONG-TERM LIABILITIES

Note payable-2001 GMC Truck	12,410
Note payable-2005 Crown Victoria	<u>18,460</u>
TOTAL LONG-TERM LIABILITIES	<u>30,870</u>
TOTAL LIABILITIES	<u>59,393</u>

## NET ASSETS

Invested in capital assets, net of related debt	21,176
Unrestricted	<u>47,276</u>
TOTAL NET ASSETS	<u>68,452</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 127,845</u></u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
EQUIPMENT POOL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

OPERATING REVENUES	
Equipment rental	\$ 50,610
Other income	
Miscellaneous	5,865
TOTAL REVENUES	<u>56,475</u>
OPERATING EXPENSES	
Equipment Pool Activities	
Salaries	9,693
Social security	616
Medicare	144
Pension	993
State unemployment	157
Supplies	2,011
Repairs and maintenance	7,597
Radio repairs	33
Service	32
Gas	10,795
Health insurance	2,487
Workers compensation insurance	284
Liability insurance	7,210
Disability and life	52
Utilities	2,247
Miscellaneous	3,192
Depreciation expense	20,302
TOTAL OPERATING EXPENSES	<u>67,845</u>
OPERATING LOSS	<u>(11,370)</u>
NON OPERATING REVENUES (EXPENSES)	
Interest expense	(2,315)
Transfer in from other funds	25,000
TOTAL NON OPERATING REVENUE (EXPENSES)	<u>22,685</u>
CHANGE IN NET ASSETS	11,315
NET ASSETS, JULY 1	<u>57,137</u>
NET ASSETS, JUNE 30	\$ <u><u>68,452</u></u>

CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF CASH FLOWS  
EQUIPMENT POOL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Customers and other revenues	\$ 52,300
Suppliers for goods and services	(41,409)
Employees for services	(9,930)

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>961</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating transfers in	<u>25,000</u>
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CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(24,000)
Proceeds from issuance of debt	24,000
Principal payments on debt	(19,482)
Interest	(1,301)

NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(20,783)</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	5,178
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CASH AND CASH EQUIVALENTS, JULY 1	<u>11,109</u>
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CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 16,287</u></u>
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CITY OF POTTERVILLE, MICHIGAN  
STATEMENT OF CASH FLOWS  
EQUIPMENT POOL FUND - Concluded  
FOR THE YEAR ENDED JUNE 30, 2006

RECONCILIATION OF OPERATING LOSS  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (11,370)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	20,302
(Increase) decrease in current assets	
Due from other funds	(4,175)
Increase (decrease) in current liabilities	
Accounts payable	(3,559)
Accrued payroll	(562)
Accrued compensated absences	325
	<hr/>
TOTAL ADJUSTMENTS	12,331
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 961
	<hr/> <hr/>

## PERMANENT FUND

The permanent fund exists to account for resources legally held in trust to be used for Imagination Station Park Fund.

CITY OF POTTERVILLE, MICHIGAN  
BALANCE SHEET  
PERMANENT FUND  
IMAGINATION STATION PARK FUND  
JUNE 30, 2006

ASSETS

Cash

\$ 5,254

LIABILITIES AND FUND BALANCE

FUND BALANCE

Reserved for park

\$ 5,254

CITY OF POTTERVILLE, MICHIGAN  
PERMANENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
IMAGINATION STATION PARK  
YEAR ENDED JUNE 30, 2006

REVENUES	
Interest and rents	\$ <u>200</u>
EXPENDITURES	<u>          </u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>200</u>
FUND BALANCE, JULY 1	<u>5,054</u>
FUND BALANCE, JUNE 30	\$ <u><u>5,254</u></u>

## FIDUCIARY FUNDS

Fiduciary Funds are established to administer resources received and held by a governmental unit as the trustee or as the agent for others. Use of these funds facilitates the discharge of responsibilities placed upon the governmental unit by virtue of law or other similar authority.

In this category, the City administers the transactions of the Current and Delinquent Tax Funds and Imprest Payroll Fund.



CITY OF POTTERVILLE, MICHIGAN  
FIDUCIARY FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2006

	EXTERNAL AGENCY FUNDS		TOTAL EXTERNAL AGENCY FUNDS	INTERNAL AGENCY FUNDS
	CURRENT TAX	DELINQUENT TAX		IMPREST PAYROLL
ASSETS				
Cash	\$ 99,612	\$ 924	\$ 100,536	\$ 21,117
Due from Other funds				10,558
TOTAL ASSETS	<u>\$ 99,612</u>	<u>\$ 924</u>	<u>\$ 100,536</u>	<u>\$ 31,675</u>
LIABILITIES				
Due to other governmental units	\$ 99,612	\$ 924	\$ 100,536	\$
Payroll withholdings payable				183
Pension payable				31,492
TOTAL LIABILITIES	<u>\$ 99,612</u>	<u>\$ 924</u>	<u>\$ 100,536</u>	<u>\$ 31,675</u>

## SUPPLEMENTARY INFORMATION

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING**  
**JUNE 30, 2006**

TITLE OF ISSUE: 1979 Series, Sewage Disposal System Revenue Bonds

PURPOSE: Construction of Sanitary Sewage Disposal System

DATE OF ISSUE: November 1, 1979

AMOUNT OF ISSUE \$ 551,000

AMOUNT REDEEMED:

Prior to current period	\$ 246,000	
During current period	<u>18,000</u>	<u>264,000</u>

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 287,000

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIRMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
May 1, 2007	5.00%	\$ 32,350	\$ 14,350	\$ 18,000
May 1, 2008	5.00%	33,450	13,450	20,000
May 1, 2009	5.00%	32,450	12,450	20,000
May 1, 2010	5.00%	31,450	11,450	20,000
May 1, 2011	5.00%	33,450	10,450	23,000
May 1, 2012	5.00%	32,300	9,300	23,000
May 1, 2013	5.00%	33,150	8,150	25,000
May 1, 2014	5.00%	31,900	6,900	25,000
May 1, 2015	5.00%	32,650	5,650	27,000
May 1, 2016	5.00%	31,300	4,300	27,000
May 1, 2017	5.00%	30,950	2,950	28,000
May 1, 2018	5.00%	<u>32,550</u>	<u>1,550</u>	<u>31,000</u>
		<u>\$ 387,950</u>	<u>\$ 100,950</u>	<u>\$ 287,000</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: Lease Purchase Agreement for a John Deere 2WD Tractor Loader

PURPOSE: Purchase John Deere Backhoe

DATE OF ISSUE: July 1, 2004

AMOUNT OF ISSUE \$ 40,030

AMOUNT REDEEMED:

Prior to current period	\$ 13,343	
During current period	<u>13,343</u>	<u>26,686</u>

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 13,344

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIRMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
June 30, 2007	0%	\$ <u>13,344</u>	\$ _____	\$ <u>13,344</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: Purchase Agreement for a 2005 Ford Crown Victoria Police Car

PURPOSE: Purchase 2005 Ford Crown Victoria Police Car

DATE OF ISSUE: September 22, 2005

AMOUNT OF ISSUE \$ 24,000

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 24,000

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIRMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
September 22, 2006	5.50%	\$ 6,860	\$ 1,320	\$ 5,540
September 22, 2007	5.50%	6,860	1,016	5,844
September 22, 2008	5.50%	6,860	694	6,166
September 22, 2009	5.50%	<u>6,804</u>	<u>354</u>	<u>6,450</u>
		<u>\$ 27,384</u>	<u>\$ 3,384</u>	<u>\$ 24,000</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: Lease Purchase Agreement for GMC 1 ½ ton Pickup Truck

PURPOSE: Purchase GMC 1 ½ ton Pickup Truck

DATE OF ISSUE: May 7, 2001

AMOUNT OF ISSUE \$ 47,589

AMOUNT REDEEMED:

Prior to current period	\$ 22,568	
During current period	<u>6,157</u>	<u>28,725</u>

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 18,864

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIRMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
June 30, 2007	5.00%	\$ 7,251	\$ 797	\$ 6,454
June 30, 2008	5.00%	7,250	466	6,784
June 30, 2009	5.00%	<u>5,749</u>	<u>123</u>	<u>5,626</u>
		<u>\$ 20,250</u>	<u>\$ 1,386</u>	<u>\$ 18,864</u>

Payments are due monthly at \$604.18 and include interest at 5.00%.

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: 1991 Series A, Special Assessment Bonds

PURPOSE: Construction of Storm Drain

DATE OF ISSUE: June 1, 1991

AMOUNT OF ISSUE		\$ 120,000
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AMOUNT REDEEMED:

Prior to current period	\$ 80,000	
During current period	<u>40,000</u>	<u>120,000</u>

BALANCE OUTSTANDING, JUNE 30, 2006		\$ <u>          </u>
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**CITY OF POTTERVILLE, MICHIGAN**  
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued  
JUNE 30, 2006

TITLE OF ISSUE: 1991 Series B, Special Assessment Bonds

PURPOSE: Construction of Storm Drain

DATE OF ISSUE: June 1, 1991

AMOUNT OF ISSUE \$ 330,000

AMOUNT REDEEMED:

Prior to current period

\$ 230,000

During current period

100,000

330,000

BALANCE OUTSTANDING, JUNE 30, 2006

\$



**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: Sunset Hills Special Assessment Bonds

PURPOSE: Construction Sewer Lift Station

DATE OF ISSUE: November 27, 1997

AMOUNT OF ISSUE \$ 400,000

AMOUNT REDEEMED:

Prior to current period	\$ 190,000	
During current period	<u>30,000</u>	<u>220,000</u>

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 180,000

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
October 1, 2006	5.40%	\$ 34,898	\$ 4,898	\$ 30,000
April 1, 2007	5.45%	4,088	4,088	
October 1, 2007	5.45%	34,088	4,088	30,000
April 1, 2008	5.45%	3,270	3,270	
October 1, 2008	5.45%	33,270	3,270	30,000
April 1, 2009	5.45%	2,453	2,453	
October, 2009	5.45%	32,453	2,453	30,000
April 1, 2010	5.45%	1,635	1,635	
October 1, 2010	5.45%	31,635	1,635	30,000
April 1, 2011	5.45%	818	818	
October 1, 2011	5.45%	<u>30,818</u>	<u>818</u>	<u>30,000</u>
		\$ <u>209,426</u>	\$ <u>29,426</u>	\$ <u>180,000</u>

PRIOR REDEMPTION

Bonds of this issue, maturing the years 1997 to 2007, inclusive, are not subject to redemption prior to maturity. After October 1, 2007, but prior to October 1, 2008, bonds are subject to optional redemption in whole or in part at a premium of 1% of par value. After October 1, 2008, bonds are subject to optional redemption in or in part at par value.

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: 2006 Refunding Building Authority Bonds

PURPOSE: Construct Recreational Facilities

DATE OF ISSUE:

AMOUNT OF ISSUE \$ 675,000

AMOUNT REDEEMED:

During current period \$ 55,000 55,000

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 620,000

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
November 1, 2006	4.35%	\$ 68,485	\$ 13,485	\$ 55,000
May 1, 2007	4.35%	12,289	12,289	
November 1, 2007	4.35%	72,289	12,289	60,000
May 1, 2008	4.35%	10,984	10,984	
November 1, 2008	4.35%	80,984	10,984	70,000
May 1, 2009	4.35%	9,461	9,461	
November, 2009	4.35%	79,461	9,461	70,000
May 1, 2010	4.35%	7,939	7,939	
November 1, 2010	4.35%	77,939	7,939	70,000
May 1, 2011	4.35%	6,416	6,416	
November 1, 2011		81,416	6,416	75,000
May 1, 2012		4,785	4,785	
November 1, 2012		84,785	4,785	80,000
May 1, 2013		3,045	3,045	
November 1, 2013		88,045	3,045	85,000
May 1, 2014		1,196	1,196	
November 1, 2014		<u>56,196</u>	<u>1,196</u>	<u>55,000</u>
		<u>\$ 745,715</u>	<u>\$ 125,715</u>	<u>\$ 620,000</u>

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: Michigan Department of Transportation Note

PURPOSE: Construction of a Turning Lane

DATE OF ISSUE: April 14, 1999

AMOUNT OF ISSUE \$ 35,000

AMOUNT REDEEMED:

Prior to current period \$ 29,392

During current period 5,608 35,000

BALANCE OUTSTANDING, JUNE 30, 2006 \$

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Continued**  
**JUNE 30, 2006**

TITLE OF ISSUE: 2002 General Obligation Limited Tax Bonds

PURPOSE: Construct Water Well

DATE OF ISSUE: November 1, 2002

AMOUNT OF ISSUE \$ 700,000

AMOUNT REDEEMED:

Prior to current period	\$ 30,000	
During current period	<u>15,000</u>	<u>45,000</u>

BALANCE OUTSTANDING, JUNE 30, 2006 \$ 655,000

**SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS**

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
October 1, 2006	7.00%	\$ 36,060	\$ 16,060	\$ 20,000
April 1, 2007	7.00%	15,360	15,360	
October 1, 2007	7.00%	35,360	15,360	20,000
April 1, 2008	7.00%	14,660	14,660	
October 1, 2008	7.00%	34,660	14,660	20,000
April 1, 2009	7.00%	13,960	13,960	
October, 2009	7.00%	38,960	13,960	25,000
April 1, 2010	7.00%	13,085	13,085	
October 1, 2010	7.00%	38,085	13,085	25,000
April 1, 2011	7.00%	12,210	12,210	
October 1, 2011	7.00%	42,210	12,210	30,000
April 1, 2012	6.50%	11,160	11,160	
October 1, 2012	6.50%	41,160	11,160	30,000
April 1, 2013	4.20%	10,185	10,185	
October 1, 2013	4.20%	45,185	10,185	35,000
April 1, 2014	4.20%	9,450	9,450	
October 1, 2014	4.20%	44,450	9,450	35,000
April 1, 2015	4.20%	8,715	8,715	
October 1, 2015	4.20%	48,715	8,715	40,000
April 1, 2016	4.20%	7,875	7,875	
October 1, 2016	4.20%	52,875	7,875	45,000
April 1, 2017	4.20%	6,930	6,930	
October 1, 2017	4.20%	51,930	6,930	45,000
April 1, 2018	4.20%	5,985	5,985	
October 1, 2018	4.20%	55,985	5,985	50,000
April 1, 2019	4.20%	4,935	4,935	
October 1, 2019	4.20%	59,935	4,935	55,000

**CITY OF POTTERVILLE, MICHIGAN**  
**SCHEDULE OF BONDED DEBT OUTSTANDING – Concluded**  
**JUNE 30, 2006**

2002 General Obligation Limited Tax Bonds - Concluded

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
April 1, 2020	4.20%	\$ 3,780	\$ 3,780	\$
October 1, 2020	4.20%	58,780	3,780	55,000
April 1, 2021	4.20%	2,625	2,625	
October 1, 2021	4.20%	62,625	2,625	60,000
April 1, 2022	4.20%	1,365	1,365	
October 1, 2022	4.20%	<u>66,365</u>	<u>1,365</u>	<u>65,000</u>
		<u>\$ 955,620</u>	<u>\$ 300,620</u>	<u>\$ 655,000</u>

PRIOR REDEMPTION

Bonds maturing on or before October 1, 2011 are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing on or after October 1, 2012 shall be subject to redemption without premium, at the option of the City, in such order as the City shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2011, at par and accrued interest to the date fixed for redemption.



# Layton & Richardson, P.C.

*Certified Public Accountants*

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council  
City of Potterville  
Potterville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Potterville, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Potterville, Michigan's basic financial statements and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Potterville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Potterville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Potterville, Michigan, in a separate letter dated October 19, 2006.

This report is intended solely for the information and use of the City Council, management and state and federal agencies. However, this report is a matter of public record and its distribution is not limited.

*Layton & Richardson, P.C.*  
Certified Public Accountants

East Lansing, Michigan  
October 19, 2006

1000 Coolidge Road  
East Lansing, MI 48823

(517) 332-1900  
(517) 332-2082 fax  
Info@LNRCPA.com

Merrick A. Richardson, CPA  
Principal  
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM  
Principal  
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA  
Principal  
Steve@LNRCPA.COM

David Layton, CPA  
DaveLayton@LNRCPA.com



## Layton & Richardson, P.C.

*Certified Public Accountants*

### LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council  
City of Potterville  
Potterville, Michigan

We have audited the financial statements of the CITY OF POTTERVILLE, MICHIGAN for the year ended June 30, 2006, and have issued our report thereon dated October 19, 2006. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Potterville is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Potterville may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses during the audit.

#### PRIOR YEAR RECOMMENDATIONS

##### CASH RECEIPTS

- 05-1 We noted that there was a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system of The City of Potterville will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of The City of Potterville's personnel. The following procedures should be enacted to ensure efficient internal control:
- 05-1a One employee, preferably a non-accounting person, should open the mail, make a control list of all receipts, and restrictively endorse all items received as "FOR DEPOSIT ONLY, CITY OF POTTERVILLE." **Current year status: This recommendation has not been implemented.**

1000 Coolidge Road  
East Lansing, MI 48823

(517) 332-1900  
(517) 332-2082 fax  
Info@LNRCPA.com

Merrick A. Richardson, CPA  
Principal  
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM  
Principal  
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA  
Principal  
Steve@LNRCPA.COM

David Layton, CPA  
Davelayton@LNRCPA.com

## PRIOR YEAR RECOMMENDATIONS - Continued

### CASH RECEIPTS - Concluded

- 05-1b The receipts should then go to another employee for further processing and deposit to the bank on a timely basis. Once endorsed, checks should remain within the control of accounting personnel. We further recommend that they be put in a locked location as soon as they are endorsed. No cash or checks should be left in the open. Receipts should be deposited daily. **Current year status: This recommendation has not been implemented. It is our understanding that efforts will be made to deposit two times weekly.**
- 05-1c Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited. **Current year status: This recommendation has been implemented.**
- 05-1d Additionally, when a tape roll from the cash register is replaced it should be marked with beginning and ending dates and cash receipt numbers. All deposit slips should be dated so that they can be further reviewed to the bank statement. **Current year status: This recommendation has been implemented.**

### CASH DISBURSEMENTS

- 05-2 After the council approves invoices, they should be initialed to indicate that they have been approved for payment. This will ensure that no checks are written without authorization. When checks are given to the check signers, the relevant invoice should be attached. This will ensure that checks are written correctly. Once the checks have been signed, they should be forwarded to a person independent of the accounts payable function for mailing. **Current year status: This recommendation has not been implemented.**
- 05-3 During our audit, we noted that paid invoices could be distinguished from unpaid invoices only by check vouchers that are attached to paid invoices. Check vouchers can at times become detached from paid invoices. Without having some notation of payment on the invoice, the check writer could inadvertently pay this invoice a second time. We would like to recommend the use of a "PAID" stamp or some other consistent method of defacing the invoice. This will ensure proper cancellation of invoices after payment, and should help prevent double payment on invoices. We further recommend that the check number, date, and general ledger account be written on the invoice. **Current year status: During our audit testing this year, we noted some improvement in this area. However, we continue to recommend full implementation of this recommendation.**
- 05-4 During our audit, we noted no indication that vendor invoices were checked to the approved purchasing documents or extensions, footings, discounts and freight terms checked for accuracy. We recommend these items be implemented and that their performance is indicated on the face of the original invoice. **Current year status: During our audit testing this year, we noted some improvement in this area. However, we continue to recommend full implementation of this recommendation.**
- 05-5 During the audit, we noted that a member of the accounting personnel presently has check signing authority, access to blank checks and prepares cash disbursements. We recommend that check signers not be accounting personnel. If a signature stamp is used, it should be kept secure by the authorized signer at all times. **Current year status: This recommendation has not been implemented.**



## **PRIOR YEAR RECOMMENDATIONS – Continued**

### CASH DISBURSEMENTS – Concluded

- 05-6 We noted during our audit that Pottersville hand writes checks without the benefit of a check protector device. The use of this procedure opens the possibility of check value alterations. We also noted that a hand written check had not been entered into the general ledger. We recommend the City of Pottersville eliminate the use of hand written checks and convert all check writing to the automated system currently used for most check writing. Converting to the automated system will improve the control over these accounts. **Current year status: This recommendation has not been implemented.**
- 05-7 Blank checks for the general bank account are not adequately controlled at night because they are left in an unlocked drawer in the accounting department. This allows for possible misappropriation of cash. We also noted that three pages of the payroll journal were printed on check stock. We strongly recommend that the blank checks be placed in a locked box or cabinet accessible only to those with proper authorization and purpose. **Management response: The blank checks are now kept in a locked cabinet. Current year status: This recommendation has been implemented.**
- 05-8 We noted during our audit that Pottersville's current operating cash account provides them with images of the face only of their canceled checks. Review of canceled checks for endorsements is impossible under this account, which weakens internal controls over cash. We recommend that Pottersville make arrangements with the bank to have online access to their account, which would enable them to view the scanned images of both the fronts and backs of the canceled checks. The ability to review all canceled checks is critically important to maintaining a strong system of cash controls. We further recommend that the reconciliation procedure include a comparison of canceled checks with the disbursement journal as to number, date, payee, and amount. **Current year status: This recommendation has not been implemented.**
- 05-9 We noted during our audit that Pottersville does not perform independent random checks on bank reconciliation and investigations of checks that fail to clear the bank. We recommend that a person independent of the accounting function perform random checks of bank reconciliations and investigate any checks that fail to clear the bank. **Current year status: This recommendation has not been implemented.**

### CASH

- 05-10 Outstanding transfers among accounts are reflected on the bank reconciliations as "Deposits in Transit". Amounts owing from one fund to another should be recorded in the appropriate due to/from accounts until the transfer is made. This way the cash account balances and due to/from balances are not over/under stated. Payroll transfers were treated in a similar manner when the transfer occurred in one month for the previous or subsequent month. Rather than being reflected in the bank reconciliation as a Deposit in Transit, such amounts should be posted to the appropriate due to/from accounts or payroll liability accounts when the transfer takes place, if different than the actual pay date. **Management response: This is in the process of being implemented. Current year status: During our audit testing this year, we noted some improvement in this area. However, we continue to recommend full implementation of this recommendation.**
- 05-11 Currently, some bank reconciliations include an unallocated variance of a relatively small amount. At least annually, such small amounts should be adjusted to zero with the offset being to miscellaneous income or expense. **Current year status: This recommendation has been implemented.**
- 05-12 During our audit, it came to our attention that the security container is inoperable. The container is kept in a locked room. The City of Pottersville should repair or replace the security container as soon as possible to maintain control and security over its assets. **Current year status: This recommendation has been implemented.**

## PRIOR YEAR RECOMMENDATIONS – Continued

### PAYROLL

- 05-13 We observed during our audit that one person is responsible for preparing payroll input, reviewing the payroll journals, finalizing each payroll for employees, and acts as an authorized check signer. This combination of duties significantly increases the chance of an error or irregularity going unnoticed. We recommend that whoever prepares the payroll is not also an authorized check signer and someone completely independent of the process review the payroll journals for accuracy. **Current year status: This recommendation has been partially implemented. The individual preparing payroll as of the end of our audit testing is not an authorized signer on the account. However, there is not independent review of payroll processing and entry.**
- 05-14 Some employee files are missing payroll deduction authorization forms. We recommend all deductions have an authorization form filled out and kept in the employee file. Pay rates, in writing from the authorized official, should also be kept in each employee's file. When payroll is prepared, the file should be compared with the payroll system rate. This will ensure that only authorized deductions are being deducted from employees' payroll and the correct rate of employee pay is applied. **Current year status: A number of employee files tested this year did not contain W-4 forms, or had W-4 forms that were over three years old. We noted two instances of other voluntary withholdings (deferred compensation and savings program) for which there was no supporting authorization available in the employee file. We continue to recommend full implementation of this recommendation.**
- 05-15 During our audit, we noted that withholding amounts on several payrolls did not agree with withholding amounts manually determined using employees withholding information and taxing authority circulars. We recommend that quarterly random checks be made to compare the payroll system determined withholding amounts with withholding determined manually and the cause of the differences investigated and corrected. **Current year status: This recommendation has not been implemented.**
- 05-16 We noted an instance where payroll records were missing for a specific pay period. We recommend that the following steps be taken. Decide on a systematic manner of filing documents, e.g., in order of pay period by year in binders. Describe the system in the accounting manual or post a description on the filing cabinets or storage room so employees will know how to find and re-file documents. Then, institute use of "sign-out" cards to be filled out when a document is removed, showing who took the record. The card should be placed in the file in place of the removed document. **Current year status: During our audit testing, no discrepancies of this type were found. It appears that this recommendation has been implemented.**
- 05-17 During our audit, we noted that Federal forms 941, State of Michigan Withholdings and State of Michigan Unemployment reports and payments have not been filed or paid timely. Federal and State laws require timely filing and payment of payroll tax returns and tax liabilities. Failure to comply on the part of the City has resulted in penalties and interest being assessed by both the Federal and State Governments. It is legally required that payroll reports and payments be made timely. **Current year status: This recommendation has been implemented.**
- 05-18 We noted the year-to-date amounts in the payroll registers did not agree with the sum of amounts from individual payroll periods. We strongly recommend investigating why this discrepancy exists and having the software corrected, or the procedures regarding how payroll is processed corrected so that such math errors are corrected. It is essential that reports such as the payroll register provide accurate information to facilitate proper reconciliation and proper completion and payment of payroll tax returns. **Current year status: During our audit testing, no discrepancies of this type were found. It appears that this recommendation has been implemented.**

## PRIOR YEAR RECOMMENDATIONS – Continued

### PAYROLL - Concluded

- 05-19 We noted an instance in the payroll system where the check for state withholding liability was prepared and sent about one week prior to the bank clearance date. However, the general ledger posting date was the same as the bank clearance date. General ledger postings must reflect the dates transactions actually occur for financial reports to be accurate. **Current year status: During our audit testing, no discrepancies of this type were found. It appears that this recommendation has been implemented.**

### UTILITY BILLINGS

- 05-20 During our audit we noted that the utility billings were not reviewed by someone other than the preparer. We recommend that someone other than the person preparing the billings review the billing reports for accuracy. We further recommend that adjustments not be made by the person who prepares the billing and that any billing adjustment is reviewed by the City Manager. This will prevent errors being overlooked and accounts being adjusted without approval. We also noted that the utility receivables report is not reconciled to the general ledger. We recommend that the utility receivables report be reconciled to the general ledger on a monthly basis. **Current year status: The City Manager now reviews billing adjustments, however, the Aged Utility Accounts Receivables report has not been reconciled to the general ledger. Additionally, the Aged Utility Accounts Receivable report should be reviewed and old uncollectible accounts should be written off after receiving board approval. We continue to recommend full implementation of this recommendation.**
- 05-21 During our audit, we noted that the water and sewer customer deposits were not in agreement with the general ledger. We recommend that the customer deposits be reconciled on a monthly basis to the general ledger. This will help to ensure the accuracy of this restricted cash. **Current year status: This recommendation has not been implemented.**

### SPECIAL ASSESSMENTS

- 05-22 During our audit, we noted there is no reconciliation of the special assessments. We recommend that the special assessments ledger book be reconciled to the general ledger on a monthly basis. **Current year status: This recommendation has not been implemented.**

### TAX FUND

- 05-23 We noted during our audit that no one reconciles the Tax Fund. We recommend that the Tax Fund be reconciled on a monthly basis. This procedure will help to ensure the accuracy of the tax receipts and disbursements of this fund. **Current year status: In connection with this year's audit, it was necessary to summarize all activity in the tax fund in order to determine the portion of tax revenue to be recognized by the City and to compute the amounts owed by the City to other units of government. It is important that the City properly record tax revenues and properly transmit correct amounts of taxes collected to the appropriate units of government. We strongly recommend that the individual responsible for the Tax Fund be properly trained and have a solid understanding of the requirements of the City in collecting and remitting taxes. Further, we continue to recommend that the Tax Fund be reconciled on a monthly basis to assure receipts and disbursements of this fund are properly calculated and recorded.**

## **PRIOR YEAR RECOMMENDATIONS – Concluded**

### **BANK STATEMENTS**

- 05-24 We suggest that the unopened bank statements received in the mail be forwarded directly to the City Manager. The City Manager should open and review the bank statements and copies of the canceled checks and investigate strange or unusual items should any be found. Documentation of the review of the items should be made on the face of the bank statement. We feel that this process will further enhance the checks and balances necessary for strong controls over cash. **Current year status: Currently, the City Manager and the City Clerk positions are held by the same individual who is responsible for reconciling the bank accounts. In this situation, we recommend that the bank statements be received unopened by the Treasurer or a Board Member. Alternatively, the Treasurer can perform the bank reconciliations. In this case, we recommend a Board Member review the unopened bank statement. We continue to recommend the same review procedures and documentation of this independent review take place. An independent review of the bank statements provides added controls that are important due to the small number of staff, and will strengthen controls over cash.**

## **CURRENT YEAR RECOMMENDATIONS**

### **SEGREGATION OF DUTIES AND BOARD OVERSIGHT**

- 06-01 During the year, there were a number of changes involving City employees having responsibilities for processing, recording and approving financial transactions. Currently, the City Manager and the City Clerk functions are performed by one individual, who also performed many of the Treasurer functions for a portion of the year. With a small staff it is difficult to segregate duties adequately so that any one individual is not performing too many portions of accounting transactions. In such situations, it is critical that the Board provide oversight in check approval and signing and reviewing, asking questions about and approving detail reports such as check registers, bank reconciliations, deposit records, payroll journals, etc. We strongly recommend the Board establish a good internal control policy manual that is followed and understood by all employees. The Board should also evaluate how it can provide increased oversight and monitoring to compensate for the lack of segregation of duties because of the limited number of staff.

### **GENERAL LEDGER**

- 06-02 We became aware of the fact that changes had been made to certain account balances by means of adjusting the general ledger “master file record” within the Fund Balance software. It appears that general ledger master file record changes caused some of the discrepancies in balances among funds noted in other comments. We strongly recommend that this practice be stopped immediately, and that the software vendor be contacted and the system be changed so that this password is no longer valid. Changes to the general ledger master file records should not be permitted as they override controls in the system to prevent changes that do not balance. Such changes cause the detail general ledger balances to be different from balances generated by the system’s trial balance reports. All general ledger adjustments should be made by a journal entry. All journal entries made should flow through to the general ledger.
- 06-03 A City employee signed a Password Release Form with the software vendor who in turn provided a password which permits access to the “Delete Data” function for all applications. We strongly recommend the software vendor be contacted and that this password be made inoperable. Deleting data may eliminate audit trails and cause file relational integrity problems.

## CURRENT YEAR RECOMMENDATIONS - Continued

### GENERAL LEDGER - Continued

- 06-04 The Fund Balance software used by the City for its accounting functions has features which permit access to various software features to be limited to properly authorized individuals only. Currently, access is permitted to most features to all system users. Strong internal controls call for limiting access to accounting programs to only those who have reason to have access. We recommend the City review the various applications and determine which staff members should have access to which applications and use the system features to limit access to those individuals. Also, all City employees in the accounting area should be properly trained in Fund Balance. The City should designate a system administrator to be the only individual having access to maintain user accounts within the computer system. Additionally, the system should require password access, staff members should not share passwords, and the system should be set up to require passwords to be changed on a periodic basis.
- 06-05 When we arrived to begin our year end audit procedures, several funds did not balance in the accounting records. In other words, the total of all the debit account balances and the total of all the credit account balances within many individual funds did not agree, when they should always agree. We strongly recommend that only adjusting entries having equal debit and credit amounts for each fund be posted to the accounting records. Further, we recommend, as part of the month end close process, that each fund be reviewed and any funds that are out of balance be investigated and appropriate entries be made to the accounting records to bring all funds into balance.
- 06-06 A number of "manual entries" were entered into the general ledger as adjusting entries. Currently, the Fund Balance software used by the City allows the user to print these manual entries only at the time of entry. Additionally, the detail of these manual entries is not included in the detail print out of account activity in general ledger reports. Accordingly, a print out of the detail activity of an account with a manual entry posted to it will not agree to the balance in the accounting records for that account. Additionally, we noted instances where the manual entry was not printed when it was entered and could not be reconstructed, nor could it be identified in the account detail as it does not print. This makes accurate reconciliation of accounts very difficult, if not impossible. It is of utmost importance that the detail accounting records support the account balances. We strongly recommend that the use of manual entries be discontinued immediately and that the software vendor be contacted and the system be changed so that manual entries are not possible.
- 06-07 We noted that none of the adjusting entries proposed by us and approved by management for the year ended June 30, 2005 were entered into the accounting records. It is important that the accounting records support the published financial statements. The purpose of such year end adjustments is to correct account balances and, if they are not posted, the financial reports generated by the accounting records do not reflect correct balances. We strongly recommend that all proposed and approved year end entries be posted to the accounting records, and that the year end financial reports produced by the City's system be reconciled to the annual published financial statements to assure accuracy.
- 06-08 We noted a number of adjusting entries posted during the year where the offsetting debit or credit amount was incorrectly posted to accounts payable. Accordingly, the accounts payable balances reported in many funds were not correct. We strongly recommend that all adjusting entries posted to the accounting records be fully understood and that all portions of journal entries be posted to the correct account in the correct amount. Additionally, the detail accounts payable should be reconciled to the general ledger account balance on a monthly basis. This will help assure accurate financial reporting during the year.

## CURRENT YEAR RECOMMENDATIONS - Continued

### GENERAL LEDGER - Concluded

- 06-09 At year end, the amounts due to and due from the different funds within the City's accounting records did not balance. These accounts should be in balance at all times during the year. We recommend the month end close procedures include verifying all due to and due from accounts are in balance. If any accounts are found to be out of balance, discrepancies should be investigated and correcting entries posted. This will help assure accurate financial reporting during the year.
- 06-10 At year end, the operating transfers in and out within the different funds of the City did not balance. These accounts should be in balance at all times during the year. We recommend the month end closing procedures include verifying all transfers in and out are in balance. Any discrepancies should be investigated and corrected. This will help assure accurate financial reporting during the year.

### CASH RECEIPTS

- 06-11 During our testing of cash receipts, we noted two instances where the amount of the bank deposit was less than the amount reflected on the bank totals report. Strong internal controls require documentation in support of bank deposits to agree with the amount actually deposited. We strongly recommend that all bank deposit totals be reconciled to the bank totals reports and any discrepancies be investigated, corrected and documented in the supporting documentation.

### CASH DISBURSEMENTS

- 06-12 We noted instances of duplicate vendor payments. Some duplicate payments occurred because vendors were paid based not only on vendor invoices, but also based on monthly vendor statements and photocopies or faxed copies of invoices. Additionally, duplicate payments occurred when a prior month's payment had not yet been reflected by the vendor and the resulting "prior balance forward" was paid in addition to the current charges. Strong internal controls call for vendor payments to be based on current charges as reflected on original vendor invoices and not on invoice copies or monthly statements. For certain vendors with several invoices each month, payment based on the statement is acceptable, but only when all invoices included on the statement have been accounted for, attached and individually approved for payment by the appropriate individual. Generally, however, monthly statements should not be used as the basis for vendor payments. Vendor statements are of benefit when they are used as a reconciliation tool to verify the City is current with its vendor obligations. Similarly, any "prior balance forward" on a vendor billing should be investigated to determine its proper resolution.
- 06-13 During our testing, we noted cash disbursement for which there was no supporting documentation available. Strong internal controls allow for disbursements to be made for only properly documented and approved expenditures. It is essential that properly approved supporting documentation be required for all disbursements, and that the supporting documentation be retained as evidence to support the validity and appropriateness of disbursements. In some instances, this may require retaining a photocopy of a form that is required to be submitted with the check.
- 06-14 We noted instances where disbursements were made in payment of multiple invoices, however, not all invoices were attached. As mentioned above, supporting documentation should be required to account for the full amount of the disbursement.

## CURRENT YEAR RECOMMENDATIONS – Continued

### CASH DISBURSEMENTS - Continued

06-15 During our audit procedures, we noted instances where payment was made on a vendor statement reflecting a credit balance. We noted other instances where the check amount was different than the amount reflected in the supporting documentation. Strong internal controls require that the mathematical accuracy be verified before payment is made. We recommend all disbursements be reviewed to assure that the amount paid is the correct amount. If a payment should be made for an amount different than that reflected in the supporting documentation, the difference should be noted and explained on the supporting documentation, and the proper amount be clearly documented. Additionally, as the checks are being signed, the signers should review the supporting documentation to verify the check has been made out for the correct amount.

06-16 We noted disbursements made based on hand written notes and store receipts which did not provide adequate documentation as to amount, payee, approval and other important information. For situations such as this, we recommend the use of a standard Check Request Form. A pre-printed check request form should have blanks for the following information to be documented:

- the name and address of the payee
- purpose of disbursement
- date of check request
- amount of requested payment
- fund and account to be charged
- attach any supporting documentation or receipts
- explanation or other pertinent information
- name of individual submitting the check request
- approval of appropriate individual
- place to note check number when paid

Use of check request forms, completed with the above information, will improve documentation for such disbursements and strengthen controls over cash disbursements.

06-17 We noted instances where check information detailed in the check register did not agree with the physical checks as processed by the bank. Discrepancies noted included the following:

- \* Multiple instances of two checks processed where the check numbers were switched. For example the register listed check #1 payable to X for \$A and #2 payable to Y for \$B. The checks were actually #1 payable to Y for \$B and #2 payable to X for \$A.
- \* One check recorded in the check register listed the wrong payee.
- \* One check cleared the bank, but was incorrectly recorded as void in the check register.
- \* One check cleared the bank, but was not recorded in the check register.
- \* One check was listed in the check register for a different amount and to a different payee than the actual check.

Adequate internal controls require that transactions be accurately recorded. We recommend that all checks be compared to the check register as they are being signed and any discrepancies be corrected before releasing checks. This control will help assure that transactions are properly recorded.

06-18 We noted instances of checks listed as void in the check register, but the physical check could not be located. We recommend all voided checks be defaced by removing the signature corner. Additionally, we recommend that all voided checks be retained in a voided check file to provide adequate documentation and allow for verification of the integrity of the numeric sequence of checks written.

## CURRENT YEAR RECOMMENDATIONS – Continued

### CASH DISBURSEMENTS – Concluded

- 06-19 We noted a number of disbursements for which a purchase order was prepared and signed by the Acting City Manager. In many cases, it appeared that the purchase order was prepared upon receipt of the related invoice, and accordingly, was of no real benefit. If the City decides to utilize purchase orders, they should be made out prior to entering into the transaction, thus providing authorization for the transaction to occur. When the invoice is received, it should be compared to the purchase order and any discrepancies should be resolved before the invoice is approved for payment. If the intent was to indicate approval of an invoice for payment, that could be properly noted on the invoice, without the additional steps needed to complete the purchase order.

### PAYROLL

- 06-20 During our testing of payroll transactions, we noted several employees whose file did not contain documentation of the current authorized pay rate. Strong internal controls call for proper documentation of pay rate authorizations, and for maintaining this documentation in the employee file. We recommend that all pay rate changes be documented and include the signature of the appropriate person authorizing the pay rate, and that this documentation be maintained in the employee files.
- 06-21 During our payroll testing, we noted several payroll transactions where the hours paid did not agree with the hours indicated on the corresponding time sheet. We also noted an instance where a Planning Commission member was paid an amount that did not agree with the number of meetings attended. Adequate internal controls require that employees be paid for the correct number of hours, which should be documented on the time sheets. We recommend that the procedures for documenting hours to be paid on time sheets and for processing payroll be reviewed and revised to assure that time sheets accurately report the correct number of hours (or meetings) to be paid and that employees are paid for the number of hours (or meetings) as reflected on the time sheets.

### UTILITIES BILLINGS

- 06-22 We noted an instance of usage being estimated by a meter reader who is not authorized to do so. The following month, the same meter reader changed the prior month's reading as the estimate made was too high. Readings are written in pencil, thus it was easy to erase and change the reading number. This caused the customer to be overcharged. We recommend that only those with adequate knowledge and proper authorization be permitted to estimate usage for billing purposes and that readings be written in ink so that changes in readings by the meter reader would not be possible.
- 06-23 We noted instances where one utility customer was charged for usage of another customer. During a four month period, customer A was charged for the usage of customer B and customer B was only charged penalties. We recommend that the utility clerk be properly trained on using the billing system and that all unusual billings be investigated and corrected.
- 06-24 We learned that some utility customer accounts could have been deleted, leaving no record of the history associated with those customers. Accordingly, it was impossible to review such accounts to determine whether or not it was proper for them to be adjusted to a zero balance. It is important to reconcile utility customer accounts and adjust individual account balances if found to be incorrect. However, accounts should be adjusted and not simply deleted. We recommend the practice of deleting utility accounts be discontinued immediately and the software vendor be contacted and the option of deleting utility accounts be removed. In the future, any utility customer accounts that have properly been adjusted to zero and will no longer have any activity should not be deleted, but should be marked inactive, which should provide an adequate historical transaction record.



## CURRENT YEAR RECOMMENDATIONS – Concluded

### BUDGET AMENDMENTS

- 06-25 We noted documentation of amendments to the budget could be improved. Currently, when a budget amendment proposal is presented to the Board, it is done by way of a Revenue and Expenditure report with the Budget column adjusted to reflect any previously approved amendments and the current proposed amendments. To better inform the Board as to the actual changes being requested, we recommend proposed budget amendments be presented in four columns as follows: 1) Originally approved budget; 2) Currently approved budget; 3) Current proposed amendments; 4) Budget reflecting previously approved and currently proposed amendments (the sum of column 2 and column 3.) This format would not only improve documentation of budget amendments, but would provide the Board with improved information to allow a more informed decision when considering budget amendments.

### TAX FUND AND DELINQUENT TAX FUND


- 06-26 During testing of tax and delinquent tax fund disbursements, we noted several instances where supporting documentation did not have proper approval indicated and supporting documentation was not marked "paid" or otherwise cancelled upon payment. Strong internal controls call for payment of only properly approved expenses, and that supporting documents for disbursements be cancelled upon payment to prevent accidental duplicate payment. We recommend that proper authorization be documented on all tax and delinquent tax payments and that all documentation for disbursements be marked "paid" and the check number and date paid be noted on the supporting documentation as well.

### FUND DEFICITS

- 06-27 At June 30, 2006, the Storm Drain Maintenance Fund and Storm Drain Special Assessment Bond Fund had fund deficits. We recommend the City write a corrective action plan to correct the fund deficits.

We are grateful to the officials and employees of the City of Pottersville for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,

  
Certified Public Accountants

East Lansing, Michigan  
October 19, 2006